Hinckley & Bosworth
Borough Council

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

SCRUTINY COMMISSION/
FINANCE & PERFORMANCE SCRUTINY 6 FEBRUARY 2020
COUNCIL 25 FEBRUARY 2020

WARDS AFFECTED: ALL WARDS

# THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES TREASURY MANAGEMENT STRATEGY 2019/20 – 2022/23 AND PRUDENTIAL INDICATORS 2019/20 – 2022/23

**Report of Head of Finance**

1. PURPOSE OF REPORT

1.1 This report outlines the Council's prudential indicators for 2019/20 - 2022/23 and sets out the expected treasury operations for this period. It fulfils four key requirements:

- The reporting of the **Prudential Indicators,** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;

- The Council's **Minimum Revenue Provision (MRP) Policy Statement**, which sets out how the Council will pay for capital assets through revenue each year

- The **Treasury Management Strategy Statement** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003.

- The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

1.2 Revised reporting is required for the 2020/21 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately. This report should be read in conjunction with the Capital Strategy and the Capital Programme which are both on the Council agenda for the 25th February 2020. The Capital Strategy deals with investments outside of the remit of standard treasury investments.

## 2. RECOMMENDATIONS

Members approve:

2.1 The Prudential Indicators and Limits for 2019/20 to 2022/23 contained within 3.19 & 3.20 of the report, including the Authorised Limit Prudential Indicator.

2.2 The Minimum Revenue Provision (MRP) Statement contained in paragraphs 3.10 & 3.11 which set out the Council's policy on MRP.

2.3 The attached report Appendix 1.

## 3. BACKGROUND TO THE REPORT

3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

3.2 The Treasury Management Strategy is attached as an Appendix. Key tables are summarised in the report.

<u>The Capital Expenditure & Prudential Indicators (**Section 2 of Appendix)**</u>

3.3 Capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need. Any decisions by the Council to commit capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal)
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax and rents);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure will need to be paid for from the Council's own resources.

The Council's capital expenditure plans are summarised below. **Further details are contained in section two of the Appendix**. The overall borrowing need for the Council is summarised below:-

| | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR – non housing | 36,971 | 32,771 | 34,071 | 33,105 | 32,145 |
| CFR – housing | **70,320** | **70,320** | **70,320** | **70,320** | **70,320** |
| **Total CFR** | **107,291** | **103,091** | **104,391** | **103,425** | **102,465** |
| **Movement in CFR** | | **(4,200)** | **1,300** | **-966** | **-960** |

| | | | | | |
|---|---|---|---|---|---|
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 3,331 | 395 | 2,656 | 509 | 491 |
| Less MRP/VRP and other financing movements | (1,194) | (4,595) | (1,356) | (1,475) | (1,451) |
| **Movement in CFR** | **2,137** | **(4,200)** | **1,300** | **(966)** | **(960)** |

3.4 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.

3.5 The Council is asked to approve the summary capital expenditure projections below.

| Capital Expenditure | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|
| Non-HRA | 5,203 | 2,286 | 8,037 | 2,359 | 1,971 |
| HRA | 5,281 | 6,979 | 10,387 | 3,936 | 3,793 |
| Total | 10,484 | 9,265 | 18,424 | 6,295 | 5,764 |

The table below summaries the above capital expenditure plans and how these plans are being financed by capital and revenue resources. Any shortfall of resources results in a funding borrowing need.

| | | | | | |
|---|---|---|---|---|---|
| **Financed by:** | | | | | |
| Capital receipts | 465 | 1,081 | 3,088 | 1,190 | 984 |
| Capital grants | 617 | 815 | 2,897 | 1,300 | 937 |
| Capital reserves | 6,025 | 6,974 | 9,783 | 3,296 | 3,352 |
| Revenue | 46 | 0 | 0 | 0 | 0 |
| **Net financing need for the year** | **3,331** | **395** | **2,656** | **509** | **491** |

**The Council's Borrowing Need (the Capital Financing Requirement)**

3.6 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The 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 underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

3.7 The Council is asked to approve the CFR projections below:

| | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR - Non Housing | 36,971 | 32,771 | 34,071 | 33,105 | 32,145 |
| CFR – Housing | **70,320** | **70,320** | **70,320** | **70,320** | **70,320** |
| **Total CFR** | **107,291** | **103,091** | **104,391** | **103,425** | **102,465** |
| **Movement in CFR** | | **(4,200)** | **1,300** | **(966)** | **(960)** |

| | | | | | |
|---|---|---|---|---|---|
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 3,331 | 395 | 2,656 | 509 | 491 |
| Less MRP/ VRP and other financing movements | (1,194) | (4,595) | (1,356) | (1,475) | (1,451) |
| **Movement in CFR** | **2,137** | **(4,200)** | **1,300** | **(966)** | **(960)** |

3.8 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP). No revenue charge is required for the HRA.

3.9 CLG Regulations have been issued which require Full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

**Minimum Revenue Provision (MRP) Policy Statement.**

3.10 A detailed Policy statement is included in Section 2.4 of the appendix. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will follow:

*To write off the existing balance over 37 years on a straight line basis (i.e. write the original debt off over 50 years)*

3.11 From 1 April 2008 for all unsupported borrowing (including Finance Leases) the MRP policy will be:-

**Asset Life Method –** MRP will be based on the estimated life of the assets

This option provide for a reduction in the borrowing need over approximately the asset's life.

**BORROWING (Section 3 of Appendix)**

3.12 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 have been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is an issue that need to be considered.

3.13 The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to borrowing. Section 3 of the Appendix details the Councils Borrowing Strategy.

**Core funds and expected investment balances**

3.14 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). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 3

| | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|
| Fund balances | 22,303 | 17,088 | 14,691 | 15,296 | 15,858 |
| Capital receipts | 7,981 | 5,798 | 3,785 | 3,670 | 3,761 |
| Provisions | 1,408 | 1,500 | 1,500 | 1,500 | 1,500 |
| Grants/Contributions | 2,876 | 2,588 | 2,329 | 2,096 | 1,886 |
| **Total Core Funds** | **34,568** | **26,974** | **22,305** | **22,562** | **23,005** |
| Working Capital* | **1,800** | **1,800** | **1,800** | **1,800** | **1,800** |
| Under borrowing | 21,355 | 20,179 | 22,237 | 24,182 | 26,158 |
| **Expected Investments** | **11,413** | **4,995** | **(1,732)** | **(3,420)** | **(4,953)** |

*Working capital balances shown are estimated year end; these may be higher mid-year.

3.15 The estimates of financing costs include current commitments and the proposals in the budget report.

**BORROWING STRATEGY**

3.16 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 have been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is an issue that needs to be considered.

3.17 The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to borrowing. Section 3 of the Appendix details the Councils Borrowing Strategy.

3.18 The Council's treasury portfolio position at 31 March 2019, with forward projections are summarised below. The table shows the external debt for capital financing operations.

| | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|
| **External Debt** | | | | |
| Debt at 1 April | 85,936 | 82,912 | 82,154 | 79,243 |
| Other Long Term Liabilities | 0 | 0 | 0 | 0 |
| Expected change in debt | (3,024) | (758) | (2,911) | (2,936) |
| Debt at 31 March | 82,912 | 82,154 | 79,243 | 76,307 |

**Treasury Indicators: limits to borrowing activity**

3.19 **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.

| Operational boundary | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|
| Debt (Internal and External) | 103,091 | 104,391 | 103,425 | 102,465 |
| Total | 103,091 | 104,391 | 103,425 | 102,465 |

3.20 **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 authorised limit:

| Authorised limit | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|
| General Fund | 34,176 | 35,476 | 34,510 | 33,550 |
| HRA | 71,915 | 71,915 | 71,915 | 71,915 |
| Total | 106,091 | 107,391 | 106,425 | 105,465 |

Separately, the Council is also limited to a maximum HRA CFR based on affordability.

| HRA Debt Limit | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|---|
| HRA debt cap | 72.0 | 72.0 | 72.0 | 72.0 |
| HRA CFR | 70.3 | 70.3 | 70.3 | 70.3 |
| HRA headroom | 1.7 | 1.7 | 1.7 | 1.7 |

Due to changes in Accounting certain long term contracts will be required to be treated similar to leased assets. An estimate for the impact of this change on the Authorised Limit and Operational Boundary has been included, but will be subject to change once the full impact has been analysed. The accounting treatment will change to those similar to long-term leases (These changes will have no impact on fund balances).

| Authorised limit and operational boundary (IFRS 16) | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|
| Other long term liabilities | 4 | 4 | 4 |

**ANNUAL INVESTMENT STRATEGY (Section 4 of Appendix)**

3.21 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The investment strategy in detailed in Section 4 of the Appendix. In accordance with guidance above the strategy priorises security first, portfolio liquidity second and then return (yield). The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables spreading of risk. Market informantion and expert advise is also used to monitor financial markets.

3.22 The Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are to be used.

3.23 Credit rating information is supplied by Link Asset Services our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list

3.24 The criteria for providing a pool of high quality investment counterparties is listed in section 4.2 of the Appendix.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report to be taken in open session

5. FINANCIAL IMPLICATIONS [IB]

5.1 These are contained in the body of the report.

6. LEGAL IMPLICATIONS [FA]

6.1 These are contained in the body of the report.

7. CORPORATE PLAN IMPLICATIONS

7.1 Treasury Management and Prudential Indicators indirectly impacts on all Corporate Plan targets

8. CONSULTATION

8.1 None

9. RISK IMPLICATIONS

9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

| **Management of Significant (Net Red) Risks** | | |
|---|---|---|
| Risk Description | Mitigating Actions | Owner |
| That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget | A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation.<br><br>The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance.<br><br>Sufficient levels of reserves and balances are maintained to ensure financial resilience | A Wilson |

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 Schemes in the Capital Programme cover all services and all areas of the Borough including rural areas.

11. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

---

Background papers:
Capital Programme 2019/20 to 2022/23
Revenue Budget 2020/21

Contact Officer: Ilyas Bham, Accountancy Manager ext 5924

Executive Member: Cllr K Lynch