NOT CONFIDENTIAL – For public release **Item No. 11**

COUNCIL
5th March 2020

Report of the Head of Resources

CAPITAL AND TREASURY MONITORING REPORT FOR 2020/21

PURPOSE OF REPORT

This report:
- Seeks approval for the Capital and Treasury Monitoring Report for 2020/21;
- Determines the Minimum Revenue Provision (MRP) statement for 2020/21 (Appendix 1)

RECOMMENDATION

1 That the Capital and Treasury Monitoring Report for 2020/21 is approved.

2 That the Minimum Revenue Provision Statement for 2020/21, as detailed in Appendix 1, is approved.

WARDS AFFECTED

All

STRATEGIC LINK

The above recommendation contributes to all of the Council's Corporate Plan Priorities

---

1. REPORT

1.1 Introduction

This capital and treasury monitoring report for 2020/21 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

1.2 Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example at Derbyshire Dales District Council assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2020/21, the Council is planning capital expenditure of £7m.

Table 1 Prudential Indicator: Estimates of Capital Expenditure in £’000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund services	6,369	5,898	5,650	5,551	5,450
Capital investments	2,784	2,533	7,342	2,071	804
TOTAL	9,153	8,431	12,992	7,622	6,254

Governance: A Capital Programme is prepared annually in March by the Head of Resources in consultation with the Corporate Leadership Team, and reported to the Council for approval. The Corporate Leadership Team appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to Council. Where expenditure is required or anticipated which has not been included in the Capital Programme, then a revision to the Capital Programme is required before that spending can proceed. Revisions to the Capital Programme must be approved firstly by the Corporate Leadership Team, then by Council. For projects over £25,000, or those of a political nature, a report is required to the relevant policy committee before the project is reported to Council. Revisions to the Capital Programme are generally taken to Council only in June and October/November each year, unless there are exceptional circumstances.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital Financing in £’000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources	436	491	493	491	491
Own resources	2,348	2,042	6,849	1,580	313
Debt	6,369	5,898	5,650	5,551	5,450
TOTAL	**9,153**	**8,431**	**12,992**	**7,622**	**6,254**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP repayments and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £'000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Own resources	471	248	99	101	103

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to decrease by £149,000 during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
General Fund services	5,898	5,650	5,551	5,450	5,347
TOTAL CFR	**5,898**	**5,650**	**5,551**	**5,450**	**5,347**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £200,000 of capital receipts in the coming financial year as follows:

Table 5: Capital Receipts in £'000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Asset sales	541	558	200	100	0
Loans repaid					
TOTAL	**541**	**558**	**200**	**100**	**0**

1.3 Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently (31st December) has £5.45m borrowing at an average interest rate of 4.1% and £27m treasury investments at an average rate of 0.79%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing and finance leases) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt (incl. finance leases)	5,601	5,450	5,450	5,450	5,450
Capital Financing Requirement	5,898	5,650	5,551	5,450	5,347

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term

Affordable borrowing limit:* The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

*Due to a change in accounting for Leases (IFRS16), all leases both operating and finance leases from 1st April 2020 will be bought on to the balance sheet as a right of use asset if the asset has a lease term of greater than 12 months and is valued at greater than £5,000 The council currently has one finance lease which is due to end in 2021 but has a number of operating leases of significant value which will increase the amount of debt liability. This will have an impact on the Affordable borrowing limits from 2021 onwards. Once the effect is known a new report will be bought for Members approval.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	11,000	11,000	11,000	11,000

Authorised limit – Finance leases Authorised limit – total external debt	1,000 12,000	1,000 12,000	1,000 12,000	1,000 12,000
Operational boundary – borrowing Operational boundary – Finance leases Operational boundary – total external debt	8,000 1,000 9,000	8,000 1,000 9,000	8,000 1,000 9,000	8,000 1,000 9,000

1.4 Treasury Investments

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £'000

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	13,000	16,000	9,000	8,000	8,000
Longer-term investments	931	931	2,000	2,000	2,000
TOTAL	**13,931**	**16,931**	**11,000**	**10,000**	**10,000**

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Resources and staff, who must act in line with the treasury management strategy approved by council. A mid-year report as well as an annual treasury report on treasury management activity is presented to Council. Council are responsible for scrutinising treasury management decisions.

Commercial Activities

With central government financial support for local public services declining, the Council invests in commercial property mainly for financial gain. Total commercial investments are currently valued at £1.5m providing a net return after all costs of 6.39%.

With financial return being the main objective, the Council accepts higher risk on commercial Investment than with treasury investments. The principal risk exposures include vacancies, and fall in capital value, currently the impact of these risks is considered low. The council does not currently have a limit on its commercial limit as investments have remained stable, however this may need to be reviewed in the future.

Governance: Decisions on commercial investments are made by the Commercial Board in line with the criteria set out in the Commercial Investment Strategy (elsewhere on the agenda) Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved by Council as part of the capital programme.

Liabilities

In addition to debt of £6m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £26.7m).

Governance: Decisions on incurring new discretional liabilities are taken by the Corporate Leadership Team in consultation with the Head of Resources. The risk of liabilities crystallising and requiring payment is monitored by the Financial Services Team and reported quarterly to Corporate Leadership Team.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£'000)	754	515	368	369	370
Proportion of net revenue stream	6.84	4.93	3.58	3.58	3.85

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Head of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

For example, the Head of Resources is a qualified accountant with 30 years' experience, the Financial Services Manager is a qualified accountant and the Principal Accountant has 6 years' experience of treasury management with the Council. The Council pays for staff to study towards relevant professional qualifications including CIPFA, and AAT.

Where Council staff members do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

2 RISK ASSESSMENT

2.1 Legal

The report complies with best practice and government guidance on the preparation of the Capita & Treasury Monitoring Statement. The legal risk is therefore low.

2.2 Financial

Financial Information is contained within the report. The financial risk of this report is low.

2.3 Corporate

This strategy sets in place a proposed structure and systems that place security of investments above yield. The risk is therefore assessed as low.

3 OTHER CONSIDERATIONS

In preparing this report the relevance of the following factors has also been considered prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

4 CONTACT INFORMATION

For further information contact:

Karen Henriksen 01629 761284 or

Email: karen.henriksen@derbyshiredales.gov.uk

5 BACKGROUND PAPERS

None

6 ATTACHMENTS

Appendix 1 – Minimum Revenue Policy Statement 2020/21

***Appendix 1 – Minimum Revenue Provision Statement 2020/21**

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* the CLG Guidance) most recently issued in 2018.

The broad aim of the CLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statements incorporate options recommended in the Guidance:

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments *or* as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure starting in the year after the asset becomes operational.
- For assets acquired by finance, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22
- Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2020, the budget for MRP has been set as follows:

	31.03.2020 Estimated CFR £'000	**2020/21 Estimated MRP £'000**
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008	5,650	99
Unsupported capital expenditure after 31.03.2008		
Finance leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		
Voluntary overpayment (or use of prior year overpayments)		
Total General Fund	**5650**	**99**

*Due to a change in accounting for Leases (IFRS16), all leases both operating and finance leases from 1st April 2020 will be bought on to the balance sheet as a right of use asset if the asset has a lease term of greater than 12 months and is valued at greater than £5,000.

The council currently has one finance lease which is due to end in 2021 but has a number of operating leases of significant value which will increase the amount of debt liability. The change will not have an impact on the budget overall.

Currently Operating lease payments are charged to net cost of services. From 1st April 2020 a charge for depreciation and interest which will be the equivalent to the former lease payment will be charged to net cost of services. The depreciation charge will then be reversed through the movement of reserves and replaced with a minimum revenue provision.

Once the impact of the change is known, a further report stating the Minimum Revenue Provision will be presented for Members approval.