

Bolsover District Council

COUNCIL

13 July 2016

TREASURY MANAGEMENT UPDATE

Report of the Leader of the Council

Purpose of the Report

- As part of its consideration of a report concerning a Housing Revenue Account funded development of new council Housing at Hilltop Shirebrook Council at its previous meeting of 13th June 2016 requested that a further report be brought back setting out that proposal within the context of the Council's wider Treasury Management Strategy.
- For Council to approve undertaking HRA Prudential Borrowing of up to £4.6m (on the basis that such borrowing meets the requirements of the Prudential Code) to fund the construction of 35 houses at Hilltop Shirebrook.
- On the basis that Council approves the proposed HRA prudential borrowing to update the Treasury Management Strategy to ensure that the borrowing is reflected in the Authorised Borrowing Limit, the Operational Boundary and the Capital Financing Requirement.
- To provide to Council a brief summary of the Council's Treasury Management activities during the 2015/16 financial year.
- To provide Council with an overview of the potential impact arising from the recent Referendum vote on the Council's Treasury Management Strategy.

1 Report Details

Prudential Borrowing to Support Council House Building.

- 1.1 At the previous meeting of Council a report was provided which outlined and approved a development of Council Housing at Hilltop Shirebrook. The scheme proposed the construction of 35 units of housing at a maximum cost of £4.6m. The proposals at Hilltop are part of the delivery of a wider corporate objective of providing an additional 100 council houses. A report to the previous meeting of Council secured approval for this second phase of the council house building programme to proceed. Previously Council at its meeting of 29th April 2015 gave approval for the construction of 33 houses at six sites across the Districts including Rodgers Avenue at an estimated cost of £3.883m. Following on from the approval of the second phase of the Programme further stages are anticipated which will construct a further 32 Council homes at an estimated cost of £4m which will secure

the new build council housing necessary to meet the Council's agreed target in respect of new house building.

1.2 The agreed programme of housebuilding is to be funded by HRA prudential borrowing. While local authorities are free to develop their own programmes of capital investment in fixed assets, they are required to have regard to the Prudential Code (which constitutes recognised good practice) in making these decisions. The CIPFA Code requires that capital investment decisions are affordable, prudent and sustainable. Central to the Prudential Code is the requirement for the authority to satisfy itself that it can afford the ongoing revenue costs associated with its capital expenditure proposals.

1.3 In order to ensure that we comply with the requirements of the Prudential Code Officers have given consideration to two pieces of work:

- Firstly, a Business Plan is developed for each phase of the housing new build programme before the scheme proceeds. That Business Plan needs to demonstrate that the scheme will generate sufficient revenue from rental income to cover both the repayment of the borrowing together with the costs of maintaining and managing the houses concerned. Both the first and second phase of the programme of Council House building have met this test. While it needs to be recognised there are always risks and unknowns when entering into capital works – such as building Council housing – officers are of the view that the financial projections have indicated that the schemes concerned are sufficiently financially robust to cover their costs despite the potential risks of rising costs or reducing income.
- Secondly, consideration is given to the affordability of a new build programme within the context of the wider HRA Business Plan. While each phase of the scheme is checked for its financial viability on a standalone basis, they also need to be considered within the wider context of the affordability to the Councils HRA. In particular the level of HRA borrowing is subject to a financial ceiling and it is important that the prudential borrowing required to fund new houses does not undermine the Council's ability to afford any major renovations that are necessary to the existing housing stock. The Government has set the maximum borrowing limit or HRA borrowing ceiling for Bolsover District Council at a level of £112.350m. On the basis that the prudential borrowing recommended within this report is approved then the total level of HRA borrowing will be as follows:

	2016/17	2017/18	2018/19
	£000's	£000's	£000's
HRA Borrowing Ceiling	112,350	112,350	112,350
Currently Approved HRA Borrowing Level	87,118	85,858	85,681
Add cost of Hilltop Scheme (cumulative)	600	3,600	4,600
Total Projected Borrowing Level	87,718	89,458	90,281
Add Cost of further 32 Council Homes needed to meet the Corporate Target (Cumulative)		2,000	4,000
Total Projected Borrowing (including Phase 3 of 32 Council Homes not yet approved.	87,718	91,458	94,281

- Likewise, the overall financial standing of the HRA has a role to play in determining whether a particular project should proceed or not, in that in a scenario where the house building proposed does not cover its costs from income then the overall HRA revenue account could take the strain. In simple terms a project to construct 35 houses for rent is highly unlikely to put a risk a financially sustainable HRA which manages over 5,000 homes. It should also be noted that as part of the initial feasibility work on the new build Programme that officers undertook modelling of the HRA Business Plan to ensure that the agreed target of 100 properties would meet the criteria for borrowing against the HRA. While the overall costs of the HRA new build programme are anticipated to be in the order of £12m the Council is currently some £23.6 m below its HRA borrowing 'cap', with an amount of £8.6m being required to fund the completion of the programme of Council House building. By March 2019 – the end of the programme – it is planned that the HRA borrowing will be one of £94.281m against a 'cap' of £112.350m, giving headroom of justb over £18m.
- 1.4. In addition to considering the financial aspects of the Business Plan Council also needs to be satisfied that the project itself addresses Council priorities. As already mentioned the Council's Corporate Plan includes a target of delivering a minimum of 100 new Council Properties by March 2019. This project delivers against all of the Council's key priorities reflecting the fact that there remains a shortage of affordable housing within the District which the Council has a duty to seek to address. Consideration of the financial implications of the new build council house programme needs to be undertaken against the background of the high priority of delivering these schemes for the Council.
 - 1.5 As reported at the previous meeting of Council officers had commissioned an external feasibility study from appropriately qualified consultants which concluded that on the basis of predicted costs and rental income there with an internal rate of return of 6.46% which is in excess of the financing costs of 4.5%. To 'stress test' this options appraisal Officers have increased the scheme cost from £4.03m to one of £4.6m which in their view may more accurately reflect the likely costs of construction on the Shirebrook site. Even on the basis of this increase in costs the scheme continues to generate a positive return of £1.2m over a projected 30 year life. Officers will continue to update the financial viability model as projected costs are clarified and will only proceed on the basis that the scheme continues to be in line with that approved by Council and that it generates a positive financial return. While officers are confident that the scheme will continue to meet the financial viability tests progress it does need to be recognised that our contractors are still working to translate the feasibility study in a fully costed plan. The Council will only contractually commit to the scheme following on from the submission of full details of the scheme including detailed site investigation and full costed plan.
 - 1.6. In agreeing to enter into the HRA prudential borrowing set out within this report Council should note that the borrowing limits previously agreed will need to be amended to reflect the proposed new borrowing. The position agreed in the Treasury Management Strategy approved by Council as at February 2016 is set out in the table below. By revising the Capital Financing Requirement Council is in effect approving that officers may enter into further borrowing on behalf of the

Council. In addition to increasing the Capital Financing Requirement by the cost of the work at Hill Top it is also necessary to increase both the Operational Boundary and the Authorised Limit for borrowing. As part of the Treasury Management Strategy agreed by Council at its meeting in February 2016 these limits were to exceed the Capital Financing Requirement by £5m and £10m respectively.

	2016/17	2017/18	2018/19
	£000's	£000's	£000's
Capital Financing Requirement 1 st April (previously approved)	97,500	102,989	103,889
Approved Changes in Year per Treasury Management Strategy	5,489	900	795
Add Prudential Borrowing costs arising from work at Hilltop Shirebrook (cumulative)	600	3,600	4,600
Capital Financing Requirement 31 st March (year end)	103,589	107,489	109,284
Operational Boundary as at 31 st March (year End)	108,589	112,489	114,284
Authorised Limit as at 31 st March (year end)	113,589	117,489	119,284

- 1.7. The scheme would also deliver wider benefits to the HRA in respect of a reduction in land maintenance costs. The General Fund would benefit from additional income from council tax and an estimated £200,000 from New Homes Bonus. Finally, as has been reported to Council on previous occasions the agreement to a new build programme for 100 homes over a period of years has enabled the contractual arrangements to secure a range of benefits such as apprenticeships in addition to the standard economic benefits to the local economy arising from construction costs.

Treasury Management Outturn Position 2016/17.

- 1.8. The Council's financial outturn position was reported to Executive at its meeting held on the 11th July 2016. That report included a section concerned with the Council's Treasury Management arrangements. That report concluded that the Council operated throughout 2015/16 within the range of Treasury Management limits agreed in the Treasury Management Strategy approved by the Council in February 2015. Appendix 1 provides a brief summary on the Treasury Management activity of the Council for 2015/16. In summary the Council operated throughout 2015/16 within the Authorised Limit and Operational Boundary limits approved in the Treasury Management strategy approved by the Council in February 2015.
- 1.9. Appendix 1 to this report sets out further details of the Treasury Management activity undertaken during the 2015/16 financial year which may be summarised as follows:
- The overall borrowing requirement of the Council is £95.824m at 31 March 2016.

- The PWLB debt is £104.100m
- The finance lease debt is £0.019m
- No new PWLB borrowing was undertaken in 2015/16
- The HRA headroom at 31 March 2016 is £22.927m
- PWLB interest paid in 2015/16 was £3.675m
- Interest received on investments was £0.217m
- The Council had £39.0m invested at 31 March 2016

Impact of the European Union Referendum on the Council's Treasury Management Strategy.

- 1.10. As Council will be aware a referendum on the relationship between the European Union and the United Kingdom resulted in a vote that the United Kingdom should cease to be a member of the European Union. This decision will clearly have a significant impact upon financial markets and thus potentially on the Treasury Management operations of this Council. A useful summary of the current position has been provided by Capita the Council's Treasury Management advisors

"The outcome of the EU referendum has necessitated a review of our interest rate forecasts. The UK now faces a very different situation from what it was in ten days ago both politically and economically. This mix of both political and economic uncertainty makes this the most difficult interest rate review we have done in recent years due to the sheer number of known unknowns. However, the impact on financial markets in the last ten days has not been as great as some had feared".
(Capita Asset Services Updated Interest Rate Forecast 4th July 2016).

- 1.11. In the short term the most noticeable impact has been that it has become more difficult to invest money with financial institutions in order to secure a positive rate of return and to spread our investments among a range of institutions in order to manage our financial exposure to a particular institution. While investments have needed to be made at a lower rate of interest and there are some indications that fewer institutions are looking to borrow at this stage the scale of the issues is a manageable one.
- 1.12. A second issue for the Council is that the agreed Treasury Management Strategy specifies that the Council should only invest in institutions which have a very high credit score and which generally are based in the United Kingdom. One result of the referendum outcome is that some UK based financial institutions have seen their credit ratings reduce. At this point in time the ratings remain sufficiently high for the Council to invest without breaching its agreed investment criteria, however, the position will continue to be monitored.
- 1.13. At this stage whilst the referendum vote has created some operational difficulties for the Council in operating within its Treasury Management strategy there has not been any requirement to operate outside that Strategy. At this stage officers do not consider it is necessary to amend the current Strategy although the position will continue to be monitored in the light of the increased volatility and uncertainty of financial markets.

2 Conclusions and Reasons for Recommendation

- 2.1 This report is primarily concerned with the financial aspects of meeting the Council's Corporate Priority of delivering 100 new Council houses by March 2019. While further work remains to be undertaken before entering into contractual commitments to deliver 35 units at Hilltop Shirebrook on the basis of the work undertaken to date officers are confident that this phase of the development is affordable within the HRA borrowing limits and will make a positive contribution to the financial sustainability of the HRA.
- 2.2 In addition the report also outlines the Treasury Management activities undertaken by the Council during the previous financial year (2015/16) and concludes that the Council operated within the parameters established by its Treasury Management policy. Finally, the report comments upon the impact of the European Union referendum and notes the increased uncertainties surrounding financial markets. While this had not had a significant impact upon the Council's Treasury Management activities at this stage and Officers anticipate that the Council will be able to continue to operate within the agreed parameters of its Treasury Management strategy the position will continue to be monitored.

3 Consultation and Equality Impact

- 3.1 There are no equality implications arising directly from this report.
- 3.2 The proposals set out within this report are intended to deliver against a key corporate priority which was developed as part of the extensive consultation undertaken around the Council's Corporate Plan.

4 Alternative Options and Reasons for Rejection

- 4.1 Council could choose not to support the development of Hill Top and aim to deliver its corporate plan target utilising alternative sites, or alternatively it could decide not to agree funding for any developments intended to secure the Corporate Plan. Given that these proposals deliver a Corporate Plan target and meet the requirements of the Prudential Code of being prudent, affordable and sustainable Officers are of the view that it is appropriate that Council approves the recommendations set out within this report.

5 Implications

5.1 Finance and Risk Implications

These are covered throughout the body of the report. While some further work remains to be completed – including securing detailed pricing for the scheme – Officers are of the view that the information currently available is sufficiently robust to enable an informed decision to be taken. The project team will continue to manage both the financial position and risk to ensure that the project is delivered in line with the approved position.

5.2 Legal Implications including Data Protection

None arising directly from this report.

5.3 Human Resources Implications

None arising directly from this report.

6 Recommendations

- 6.1 That Council notes the report and reaffirms its commitment to the scheme at Hilltop Shirebrook proceeding at an estimated cost of up to £4.6m, funded through prudential borrowing on the basis that the proposed borrowing is affordable, prudent and sustainable
- 6.2. That Council note that the agreed increase in HRA borrowing of £4.6m will increase the Capital Financing Reserve, the Operational Boundary and the Authorised Limit by a corresponding amount as detailed in the table set out in section 1.7 of the report.
- 6.3 That Council reaffirms its previous decision that subject to a satisfactory viability appraisal, based on the contract value, the Assistant Director of Property & Estates is given delegated authority to negotiate and enter a contractor for the construction of the scheme.
- 6.4. That Council notes the details concerning the operation of the Council's Treasury Management Strategy during 2015/16 and in particular the fact that it operated within the limits agreed by Council when it approved that Strategy on 4th February 2015.
- 6.5. That Council notes that its Treasury Management Strategy is now operating in the context of financial markets which have become more uncertain and potentially volatile as a result of the outcome of the European referendum.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
District Wards Affected	Shirebrook
Links to Corporate Plan priorities or Policy Framework	Corporate Plan - deliver a minimum of 100 new Council properties by March 2019

8 **Document Information**

Appendix No	Title
A	Site Photographs
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Bolsover Development Land Consultancy – Hilltop Avenue, Shirebrook (Tibbalds Multidisciplinary Team)	
Report Author	Contact Number
Executive Director – Operations Commercial Property & Developments Manager	2210

Report Reference –

Capital Financing Requirement

The key area of Treasury Management is the measurement and control of the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance its capital expenditure. The revised estimate of the CFR for 2015/16 and the actual outturn CFR are shown in the table below: -

	Revised Budget 2015/16 £000	Actual Outturn 2015/16 £000
Capital Financing Requirement 1 April	98,962	98,962
Prudential Borrowing General Fund	1,825	722
Prudential Borrowing HRA	470	436
Leasing Repayments	(19)	(19)
Minimum Revenue Provision (MRP)	(234)	(207)
Movement on other debt – retentions	0	20
HRA Debt Repayment per business plan	(3,500)	(3,500)
Repayment of Allowable Debt (HRA)	0	(590)
<i>Capital Financing Requirement 31 March 2016</i>	97,504	95,824

The overall outturn position shows a net reduction of outstanding debt of £3.138m in 2015/16. Prudential borrowing has been undertaken by the Council in 2015/16 for General Fund Vehicles, ICT projects, the Asset Management Plan and new Council Dwellings

The repayment of outstanding debt from the Sale of Council House receipts is the Allowable Debt sum of £0.590m. Under the current regulations when a Council dwelling is sold the Council is allowed to retain some of the capital receipts because it is carrying debt on each property following the HRA reforms settlement. It is called the Allowable Debt calculation. It is advisable that the retained receipt element for Allowable Debt is actually utilised to repay the debt outstanding on the sold houses otherwise the Council is carrying debt where it has no asset.

The Capital Financing requirement is split between the HRA and General Fund the balance of each is shown below:

Capital Financing Requirement at 31 March 2016	£000
General Fund	6,401
Housing Revenue Account	89,423
Total CFR	95,824

From the HRA CFR the Council is able to calculate the “headroom” available which is the gap between the HRA debt limit set by the Government when the HRA reforms were introduced. This is shown in the table below:

HRA “Headroom” calculation	£000
Housing Revenue Account – Debt Limit	112,350
Housing Revenue Account CFR 31 March 2016	89,423
Headroom at 31 March 2016 =	22,927

The above table shows that the Council’s HRA has a headroom figure of £22.927m at 31 March 2016.

How the CFR is covered.

As mentioned above the CFR is the Council’s underlying need to borrow to finance capital expenditure. To finance the CFR the Council has external borrowing, finance leases and the use of its own reserves and balances. The position as at 31 March 2016 is as follows:

	£000
Capital Financing Requirement 31 March 2016	95,824
Financed from	
External Borrowing via PWLB	104,100
External Borrowing via Leasing arrangements	19
Use of internal balances and reserves	(8,295)
Total Financing of CFR	95,824

PWLB Borrowing

The Council’s total outstanding PWLB debt amounted to £104.100m at 1 April 2015. During 2015/16 no principal repayments were made. No new loans have been taken out with the PWLB during 2015/16. The profile of the outstanding debt is analysed as follows: -

PWLB BORROWING	Maturity Profile 31 March 2015	Maturity Profile 31 March 2016
Term	£	£
12 Months	0	1,000,000

1 - 2 years	1,000,000	1,000,000
2 - 5 years	4,000,000	5,000,000
5 - 10 years	20,300,000	20,300,000
Over 10 year	78,800,000	76,800,000
Total PWLB Debt	104,100,000	104,100,000

PWLB Interest

The interest cost to the Council of the PWLB debt for 2015/16 is £3,675,550. The cost is split within the accounts between the HRA and General Fund based on the level of debt outstanding within the CFR.

Temporary Borrowing

Cash flow monitoring and management serves to identify the need for short term borrowing to cover delays in the receipt of income during the course of the year. During 2015/16 no short term borrowing was undertaken by the Council and therefore no interest charges were incurred.

Temporary / Fixed Investments

The table below details the investments held at 2015/16.

Bank Name	Balance Invested 31 March 16 £000
Fixed	
Nationwide	5,000
Goldman Sachs	5,000
Lloyds	5,000
Call Accounts	
Barclays	5,000
Santander	4,000
Money Market Funds	15,000
Total	39,000

From the table above it can be seen that the balance invested by the Council at 31 March 2016 is £39.0m. Interest earned from temporary investments during 2015/16 amounted to £217,010 and is detailed in the table below:

Bank Name	Amount Received
Nationwide	(30,753)
Goldman Sachs	(28,560)
Close Brothers	(24,164)
Lloyds	(12,753)
Barclays	(29,510)
Nat West Bank	(5,403)
Money Market Funds	(69,375)
Santander	(16,492)
Total	(217,010)

Overnight Balances

The balance of any daily funds is retained in the Council's general account with the Lloyds Bank.

Compliance with Treasury Limits

During the financial year the Council continued to operate within the treasury limits set out in the Council's Borrowing and Investment Strategy.

	Actual in year 2015/16 £000	Set Limits in year 2015/16 £000
Authorised Limit (total Council external borrowing limit)	104,119	113,969
Operational Boundary	104,119	108,969