

Bolsover District Council

Council

13th November 2019

Reduction in Debt Charges Through Use of Reserves

Report of the Portfolio Holder for Finance and Resources

This report is public

Purpose of the Report

- To seek approval to swap the financing of the general fund capital programme to the use of reserves from borrowing to make substantial savings through reduced debt charges.

1 Report Details

- 1.1 At its meeting on 16th September 2019, Executive received the report at **Appendix 1**.
- 1.2 The proposal was to swap the financing of the General Fund Capital Programme to the use of reserves, rather than borrowing.
- 1.3 Executive supported the proposal to invest £3.937m from the Transformation Reserve to finance the Capital Programme to generate a revenue return of £0.841m over the years 2020/21 – 2022/23 and a further £3.096m over the remaining life of the assets.

2 Conclusions and Reasons for Recommendations

- 2.1 The Transformation Reserve balance at 31st March 2019 was £8.354m, with £5.998m uncommitted. When the Capital Programme was initially financed in the MTFP it was planned to use prudential borrowing as no other resources were available.
- 2.2 In considering CIPFA's 'Treasury Management Code' and the Ministry for Housing, Communities and Local Government 'Statutory Guidance on Local Government Investments' a risk v's reward approach has been taken to review the financing the capital programme through reserves rather than borrowing. Put simply, using the savings account to fund capital purchases rather than a credit card.

- 2.3 There is little or no financial risk in the proposal and with favourable rates of return compared with other forms of investment, as follows:

Options	Risk	Return
Report proposal	None	7% - 17%
Commercial Investment Portfolio (Neighbouring authority)	Tenant financial stability, sector risk, condition of the building, lease length, etc.	4.98% - 8.78%

- 2.4 In conclusion, it is recommended that Council approve that the Capital Programme is re-financed by reserves rather than borrowing.

3 Consultation and Equality Impact

- 3.1 There are no equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 Do nothing. Council could choose not to agree to re-finance the Capital Programme from the reserve as proposed. As an unspent reserve the interest accrued is less than 1%. Any alternative investment project to the one proposed is likely to involve more financial risk with potentially a lower return.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 Financial issues and implications are covered in the relevant sections throughout this report.

- 5.1.2 The risks are covered throughout the report.

5.2 Legal Implications including Data Protection

- 5.2.1 There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

- 5.3.1 There are no Human Resources issues arising directly from this report.

6 Recommendations

- 6.1 That Council agree to re-finance the Capital Programme from reserves of £3.937m rather than borrowing.

7 Decision Information

<p>Is the decision a Key Decision?</p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>BDC: Revenue - £75,000</i> <input type="checkbox"/></p> <p><i>Capital - £150,000</i> <input type="checkbox"/></p> <p><i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/></p> <p><i>Capital - £250,000</i> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	N/A
<p>Is the decision subject to Call-In?</p> <p>(Only Key Decisions are subject to Call-In)</p>	N/A
<p>Has the relevant Portfolio Holder been informed</p>	Yes
<p>District Wards Affected</p>	All
<p>Links to Corporate Plan priorities or Policy Framework</p>	<p>Transforming Our Organisation:</p> <p>Ensuring financial sustainability and increasing revenue streams</p>

8 Document Information

Appendix No	Title
1	Executive Report 16 th September 2019, Reduction in debt charges through use of reserves.
<p>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)</p>	
Report Author	Contact Number
Chief Accountant and Section 151 Officer	2458

Bolsover District Council**Executive****16th September 2019****Reduction in debt charges through use of reserves****Report of the Portfolio Holder - Finance & Resources**

This report is public

Purpose of the Report

- To seek approval to swap the financing of the general fund capital programme to the use of reserves from borrowing to make substantial savings through reduced debt charges.

1 Report Details

- 1.4 The Medium Term Financial Plan was approved by Members in February 2019. This covered the financial years 2019/20, 2020/21, 2021/22 and 2022/23. After being updated for the 2019/20 council tax increase, the latest budget position for the Council is shown in **table 1**.
- 1.5 As the table shows, the extent of the current budget shortfall totals £4.384m over the life of the current plan after the estimated surplus for the current year.

<u>Table 1</u>	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000	2022/23 Budget £000
Budget Shortfall – MTFP Feb 2019	83	974	1,559	2,204
Efficiencies identified to date (removed from budget)	(119)	(115)	(115)	(123)
Current Budget Shortfall	(36)	859	1,444	2,081
Efficiencies identified <u>not yet realised</u>	(339)	(551)	(734)	(916)
Target Budget Shortfall	(375)	308	710	1,165

- 1.6 The Council's financial position is not dissimilar to other Councils throughout the country and is in fact a better position than quite a few, particularly Counties. The Council has for a number of years been successful in making efficiency savings and increases to income through proactive business decisions.
- 1.7 In response to the national funding position, The Institute of Fiscal Studies published a report in March 2019 on the options for expanding local taxation. *"Local Government in England already raises local taxation (council tax and business rates) that funds 81% of the expenditure it controls. However, these taxation streams are not buoyant because they do not increase with growth in the economy and will not increase sufficiently rapidly to keep pace with rising costs and demands for services in the future. It is therefore highly likely that either funding from central government grants will have to be increased or new sources of locally raised revenues will have to be found.*
- 1.8 In the Local Government Finance Settlement for 2019/20, government funding increased in line with inflation with no new funding for district councils. A number of fundamental changes to future local authority funding are currently being considered by the Government. Funding is likely to be moved away from districts to other tiers of local government. The Fair Funding Review and Business Rates Reset are both likely to negatively affect district councils. The impact of these reviews was expected to be incorporated into the 2020/21 settlement but this has been delayed and will not now implemented until 2021/22.
- 1.9 The Council's Transformation Plan was formally launched in March 2018 as a direct result of the changes in central government funding and the future financial position facing the Council. These were seen as both considerable challenges and considerable opportunities over the coming years.
- 1.10 At 31st March 2019, the Council's transformation reserve had a balance of £8.354m. Commitments already made against the reserve for 2019/20 and future years amounted to £2.356m leaving £5.998m uncommitted. This reserve is available to support investment in cost reduction and income growth, reflecting the Council's pro-active approach to addressing the financial challenges it faces.
- 1.11 A suggestion has been made as part of the Transformation Programme which would reduce the amount of General Fund debt charges the Council pays each year. Instead of borrowing to finance the future capital programme, an amount from the transformation reserve would be used to fund the expenditure instead.
- 1.12 The figures in **table 2** show the total amount of General Fund capital expenditure to be funded from borrowing currently included in the approved capital programme as £6.573m for the whole three years. The debt charges associated with this level of borrowing are already included in the General Fund budget at £1.441m. The debt charges associated with the £3.793m borrowing in 2019/20 is £0.312m and this is payable for every year of the life of the asset. This is why the total debt charges in the table are not simply £0.733m.

Table 2	2019/20	2020/21	2021/22	Total
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	£'000	£'000	£'000	£'000
Total cost of capital expenditure	3,793	770	2,010	6,573
Total cost of borrowing for capital expenditure	312	84	337	1,441
Cost of high value/low life assets	2,732	460	745	<u>3,937</u>
Cost of borrowing for those assets	191	70	127	841
Proposed total saving in debt charges	191	261	389	841

- 1.13 If the Council didn't have to borrow at all the Council could save £1.441m over this period which would eventually total £6.573m over the whole life of the capital programme as the cost is simply divided over the life of the assets. As the Council does not have enough reserves to do this, calculations have been done to make the most benefit for the Council from any reserve amount used. The way debt charges are calculated means the largest savings can be made on the highest value assets with the shortest lives for example vehicles.
- 1.14 **Table 2** shows that by using £2.732m of reserves in 2019/20, £0.191m can be saved in that year. Again this will be saved for all three of the years. If a further £0.460m in 2020/21 and £0.745m in 2021/22 of reserves were used, over the full three years £0.841m would be saved. Over the whole life of the capital programme for these assets the total used from the reserve would be saved in the General Fund (£3.937m). While most assets included have a life estimated to be less than ten years, one expensive scheme is estimated at fifty.
- 1.15 CIPFA's 'Treasury Management Code' and the Ministry for Housing, Communities and Local Government 'Statutory Guidance on Local Government Investments' both state *"Where organisations invest in other financial assets and property primarily for profit, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions. Robust and transparent governance procedures and decision making remain critical in all investments an authority makes"*.
- 1.16 With both these documents in mind each transformation idea must be considered for risk and reward. The Council's Capital Strategy approved in February 2019 states that the Council accepts higher risk on commercial investment than with treasury investments and that the financial viability of each individual potential investment opportunity will be fully assessed within a comprehensive business case. This is in order to reflect the potential risk that may arise as a consequence of undertaking commercial property investment.
- 1.17 There are no financial risk associated with using reserves in this way. There is however always the opportunity to spend/invest the money on other things before

we have replenished the reserve. In all likelihood a scheme in excess of £3m in value would almost certainly be capital and in which case we would borrow the money and incur debt charges at that time, subject to a business case. If substantial revenue funds were required the General Fund has a working balance of £2m.

- 1.18 The reward from swapping the reserves for the borrowing is £0.841m revenue savings over 3 years as outlined in **table 2**, plus £3.096m over the remaining life of the assets. The return on the amounts borrowed for each year are 2019/20 7%, 2020/21 15% and 2021/22 17%, all for each year of the asset.
- 1.19 As a comparison, a neighbouring authority has purchased a number of commercial investment properties over the last five years at a cost in the region of £24m. The return on the individual investments ranges from 4.98% to 8.78%. This return on investment is not without risk. Tenant financial stability, sector risk, condition of the building are all risks with can be outside of the control of the Council and significantly impact on the value of the investment.
- 1.20 As a final note, there will be no effect on investment interest as a result of making this change. The financing of the capital programme by reserves does not cause any more money to leave the Council's bank account than using borrowing.
- 1.21 If the recommendation is approved and £3.937m of reserves is swapped for borrowing the updated budget position for the Council will be as shown in **table 3**. The savings occur in the year after the reserves are used as that is how debt charges have to be calculated.

Table 3

	2019/20	2020/21	2021/22	2022/23
	Budget £'000	Budget £'000	Budget £'000	Budget £'000
Budget Shortfall - MTFP Feb 2019	83	974	1,559	2,204
Efficiencies identified to date (removed from budget)	(119)	(115)	(115)	(123)
Savings from reduced debt charges	0	(191)	(261)	(389)
Updated Budget Shortfall	(36)	668	1,183	1,692
Efficiencies identified <u>not yet realised</u>	(339)	(551)	(734)	(916)
Target Budget Shortfall	(375)	117	449	776

2 Conclusions and Reasons for Recommendations

- 2.1 In considering CIPFA's 'Treasury Management Code' and the Ministry for Housing, Communities and Local Government 'Statutory Guidance on Local Government Investments' a risk v's reward approach has been taken to review the financing the capital programme through reserves rather than borrowing. Put simply, using the savings account to fund capital purchases rather than a credit card.
- 2.2 There is little or no financial risk in the proposal and with favourable rates of return compared with other forms of investment, as follows:

Options	Risk	Return
Report proposal	None	7% - 17%
Commercial Investment Portfolio (Neighbouring authority)	Tenant financial stability, sector risk, condition of the building, lease length, etc.	4.98% - 8.78%

- 2.3 In conclusion, it is recommended that Executive invest £3.937m of Transformation Reserve to finance the Capital Programme generating a revenue return of £0.841m over three years and a further £3.096m over the remaining life of the assets. This would reduce the Transformation Reserve from £8.354m (as of 31 March 2019) to £4.417m with £2.061m uncommitted.

4 Consultation and Equality Impact

- 4.1 There are no equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 Rather than fund the full £3.937m from Transformation Reserve, a smaller amount of reserve could be utilised. This would reduce the overall revenue saving achieved from the proposal and any alternative Transformation Reserve scheme will incur more financial risk.
- 4.2 Do nothing. Executive could choose not to spend the reserve on refinancing as proposed. As an unspent reserve the interest accrued is less than 1%. Any alternative investment project is likely to involve more financial risk and a return below 7%-17%.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 Financial issues and implications are covered in the relevant sections throughout this report.
- 5.1.2 The risks are covered throughout the report.

5.4 Legal Implications including Data Protection

5.2.1 There are no Data Protection issues arising directly from this report.

5.5 Human Resources Implications

5.3.1 There are no Human Resources issues arising directly from this report.

6 Recommendations

6.1 That Executive recommend to Council:

- (i) that £3.937m be invested to finance the Capital Programme as outlined in paragraph 1.11.
- (ii) that the Capital Programme is re-financed in line with paragraph 1.11.

7 Decision Information

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
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