

C. Treasury Strategy and Prudential Indicators

1. Background

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored each year.

The Authority uses Arlingclose to provide professional advice on treasury, loan and investment matters.

Whereas historically, the treasury strategy and prudential indicators were associated with financing the capital programme, from 2020/21 much of the delivery of the capital programme will be given to Qualis and much of the borrowing will be to onward loan Qualis the money for what otherwise would be direct capital investment.

The authority's loans to Qualis will be secured in the main against land and buildings and appropriately risk priced.

The strength of the authority's finances will be maintained and of course be managed over time.

2. Indicators

The key indicators that will be used in the full Treasury and Prudential Indicator Strategy, that will pass to Full Council in February will include the following:

Heading	Expected value in 2020/21 £m	Notes
Capital expenditure general and HRA	£26m	Of which £13m is HRA core house building and £8m is associated with general accommodation strategy.

Capital receipts	£14m	Sale of assets to Qualis at full open market value. Figure may alter if future sale of assets is also brought forward to 2020/21. Yet to be factored into Treasury Strategy estimates pending further discussions with the Authority's treasury advisor.
Loans to Qualis working capital	£5m	Risk priced at three-time PWLB rate.
Loans to Qualis investment purchases	£30m	Of which £20m spent in 2019/20. Risk priced at two-time PWLB rate.
Loans to Qualis EFDC land and development	£85m in 2020/21 and possibly the year after.	Risk priced at two-time PWLB rate.
Grants	Negligible	To be confirmed
Reserves	Net movement £1m	Net movement is a draw of £1m from DDF a reduction in the £2m draw from reserve that was originally estimated for this year.
Revenue (depreciation)	£15m	Will remain on or around this figure during the planning period

New EFDC Borrowing (loans to Qualis and Capital Programme less depreciation and capital receipts)	£150m	Significantly increases to fund Qualis loans, but loans are broadly secured and authority benefits on the margin of granting them. Biggest risk is working capital amount which is suitably risk priced. Also includes a working capital requirement due to recent asset purchase activity and use of right to buy receipts.
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From the above analysis the following indicators will be produced for the coming five years:

Estimates of Capital Financing Requirement. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Operational Boundary for External Debt. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Authorised Limit for External Debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Ratio of Financing Costs to Net Revenue Stream. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Adoption of the CIPFA Treasury Management Code. The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition in April 2002. It fully complies with the Codes recommendations.

Annual Minimum Revenue Provision Statement 2018/19

Where the Council 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 Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid 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.

3. Information to Follow

In view of the late adjustments to the value of the capital programme, continuing discussion as to the exact timing of the sale of assets to Qualis at open market value and further discussions due on sourcing money from other appropriate sources that do not appear on our current counter party list, Additional capital, capital funding and minimum resource provision information will be available in written form on the day of the Council meeting.