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PLEASE NOTE THAT PRAYERS WILL BE HELD AT 6.50PM BEFORE THE COMMENCEMENT OF THE BUSINESS OF THE COUNCIL.

THE MAYOR REQUESTS THAT ANY MEMBER WISHING TO PARTICIPATE IN PRAYERS BE IN ATTENDANCE BY NO LATER THAN 6.45PM.

SUPPLEMENTARY AGENDA

Dear Sir/Madam,

You are summoned to attend the meeting of the Borough Council of Newcastle-under-Lyme to be held in the **Astley Room - Castle House** on **Wednesday, 20th February, 2019** at **7.00 pm**.

BUSINESS

- | | |
|---|----------------|
| 6a TREASURY MANAGEMENT STRATEGY 2019/20 | (Pages 3 - 4) |
| 7a CAPITAL STRATEGY 2019 TO 2029 | (Pages 5 - 13) |
| These pages replace pages 85 to 88 of your main agenda. | |
| 9a QUESTIONS TO THE MAYOR, CABINET MEMBERS AND COMMITTEE CHAIRS | (Page 15) |

Yours faithfully

A handwritten signature in black ink, appearing to read 'Martin T. Handley'.

Chief Executive

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE COUNCIL

20 February 2019

1. TREASURY MANAGEMENT STRATEGY 2019/20

Submitted by: Head of Finance

Portfolio: Finance and Efficiency

Ward(s) affected: All Indirectly

Purpose of the Report

To approve the Treasury Management Strategy for 2019/20, including the Minimum Revenue Provision Policy contained within it.

Recommendations

(a) That the Treasury Management Strategy Report for 2019/20 be approved.

(b) That the Minimum Revenue Provision Policy contained within the report be approved.

Reasons

The Council needs to have an approved Treasury Management Strategy for 2019/20 in place before the start of the 2019/20 financial year.

At the Council meeting of 24 June 2009 it was resolved that the strategy be scrutinised by the Finance, Resources and Partnerships Scrutiny Committee (superceded by Finance, Assets and Performance Scrutiny Committee) before being submitted for approval by Full Council.

1. Background

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice. This requires a report to be prepared and approved by the Council concerning the strategy to be followed in carrying out its treasury management activities in the forthcoming financial year, 2019/20.

2. Issues

2.1 The Strategy Report for 2019/20 is attached at Appendix 1

2.2 The Minimum Revenue Provision Policy for 2019/20 is contained in Annex C to the report.

2.3 Some of the paragraphs and the economic commentary have been supplied by Arlingclose Ltd, the Council's treasury management advisors.

2.4 The Treasury Management Strategy for 2019/20 allows for borrowing. At the Cabinet meeting on 15th October 2014, Cabinet resolved, via the 'Funding the Council's Capital Investment Programme' report:

‘That Cabinet agrees with the principle that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for disposal.’

However if these capital receipts do not materialise then borrowing will occur in order to fund the capital programme.

2.5 Additionally at the Council meeting on 7th September 2016, it was reported that:

‘The delay in receiving the capital receipt from HDD (in respect of the Ryecroft redevelopment scheme), together with the Council’s overall capital financial position, will mean that the Council will have to borrow, at least in the short term, to finance its interest in the Public Sector Hub project.’

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

4.1 There are no specific financial implications arising from the strategy report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council’s surplus funds is to safeguard the Council’s capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **List of Appendices**

6.1 Appendix 1, Treasury Management Strategy Report 2019/20.

7. **Background Papers**

- CIPFA Treasury Management Code of Practice (revised December 2017);
- Council’s Treasury Management Policy Statement;
- Local Government Act 2003; and
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

Agenda Item 7a

- to enable agreed actions in relation to approved policies and strategies to be progressed and to meet other Council commitments.

Over the period 2019/20 to 2028/29 it is estimated that £8.2m (commercial properties), £2.4m (engineering structures) and £74m (in respect of policy and strategy commitments or similar) need to be spent.

Funding will depend on capital receipts from asset sales. Reports concerning proposed asset sales were considered and recommendations approved by the Cabinet on 19 September 2018. There will be insufficient capital receipts arising from these planned sales to meet all of the costs of the investment programme. Accordingly, it is estimated that around £13.87m of expenditure will have to be funded from borrowing over the ten year period if the programme is to delivered in its entirety.

In addition, £15.625m of fleet replacement costs will need to be financed, either by leasing or prudential borrowing. For the purposes of completeness, Annex B assumes that these costs will be funded from prudential borrowing. However, this will be subject to a detailed appraisal to determine the most cost effective financing method.

The £15.625m of fleet replacement costs for the 10 year period are shown in the table below:-

Description	19/20 £m	20/21 £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	Total £m
Pest Control Vans						0.054				0.063	0.117
Leisure Vehicle						0.018				0.021	0.039
Facilities Management Vehicle						0.018				0.021	0.039
Mayors Car	0.080							0.080			0.160
Streetscene Vans		0.100	0.260	0.120		0.018	0.060	0.304	0.264	0.021	1.147
Streetscene Mowers	0.015	0.144			0.017	0.180				0.020	0.376
Streetscene Sweepers	0.130			0.124	0.392	0.152	0.157	0.140	0.440		1.535
Streetscene Tractors									0.335		0.335
Streetscene Tools	0.025	0.075	0.075			0.019	0.025	0.159	0.041		0.419
Streetscene Trailers	0.006			0.007		0.007	0.007		0.008	0.008	0.043
Waste Refuse Fleet	0.330	0.015	0.174		2.390		0.414		0.207	2.855	6.385
Waste Recycling Fleet – New Service		2.140						2.560			4.700
Waste JCB Diggers	0.060						0.085	0.088			0.233
Waste Van		0.018					0.079				0.097
Total	0.646	2.492	0.509	0.251	2.799	0.466	0.827	3.331	1.295	3.009	15.625

There will be a consequent cost to the revenue budget which will have to be included in the MTFS projections. Based on the expenditure shown in Annex B and forecasts of the amount and timing of receipts and current capital financing costs, the additional costs to the revenue budget will be around £4.78m for the main programme and potentially a further £8.42m for fleet replacement over 10 years, with the costs in each year 2019/20 to 2028/29 being as shown below.

Year	Fleet Replacement £m	Other £m	Total £m
2019/20	0	0	0
2020/21	0.12	0	0.12
2021/22	0.46	0	0.46
2022/23	0.53	0.05	0.58
2023/24	0.60	0.42	1.02
2024/25	0.98	0.79	1.77
2025/26	1.04	0.88	1.92
2026/27	1.19	0.88	2.07
2027/28	1.65	0.88	2.53
2028/29	1.85	0.88	2.73
Total	8.42	4.78	13.2

A capital programme for 2019/20 to 2021/22 totalling £19.30m will be recommended to Full Council on 20 February 2019, consistent with the detail shown in Annex B. The prudential indicators that will apply for this 3 year period are set out at Annex C.

Funding for 2019/20 expenditure is likely to be available from the following sources:

- Further capital receipts from asset sales
- Right to Buy capital receipts
- Government grants
- Other external contributions

All of the above funding sources are likely to be limited so the programme only includes affordable projects.

As described earlier, current estimates of the amount required to be invested in projects to ensure continued service delivery and meet commitments compared with forecasts of likely receipts from asset sales and other available resources indicate that there will be insufficient resources available to fund all of these requirements. If forecast receipts from sales of assets cannot be achieved within this timeframe, the Council may have to review its stance with regard to borrowing, if this proves to be the only practical means of funding necessary investment, particularly if a major unforeseen item of capital expenditure were to materialise, for example major repairs to enable an operational building to continue to be used or new legislation requiring capital spending.

It is not intended to borrow to fund the 2019/20 programme, provided forecast sales occur and realise the projected capital receipts however it is anticipated that prudential borrowing will be required in later years.

DEFINITION OF CAPITAL EXPENDITURE INCLUDED IN THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM

All expenditure that can be directly attributed to the acquisition, creation or enhancement of items of property, plant and equipment or the acquisition of rights over certain longer-term intangible benefits is accounted for on an accruals basis and capitalised as a non-current asset. It must be probable that the future economic benefits or service potential associated with the item will flow to the Council - the Council does not have to own the item but it must be more than likely that it has gained the right to use the item in the provision of services or to generate cash from it. In addition it must be possible to measure the cost of the item reliably.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels

In this context, the definition of enhancement contained in the previous Code of Practice (SORP) is still applicable and means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purpose or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred. Expenditure on existing fixed assets should be capitalised in three circumstances:

- Enhancement - see above
- Where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored
- Where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation

Assets acquired on terms meeting the definition of a finance lease should be capitalised and included together with a liability to pay future rentals.

Where an asset is acquired for other than cash consideration or where payment is deferred the asset should be recognised and included in the balance sheet at fair value.

2019/20 to 2028/29 Capital Programme

CAPITAL PROJECTS	2019/20 to 2028/29 Proposed Programme										
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£	£	£	£	£	£	£	£	£	£	£
PRIORITY - Local Services that work for Local People											
Service Area - Council Modernisation	195,000	320,000	486,000	90,000	102,000	15,000	528,000	40,000	29,000	15,000	1,820,000
Total	195,000	320,000	486,000	90,000	102,000	15,000	528,000	40,000	29,000	15,000	1,820,000
PRIORITY - Growing our People and Places											
Service Area - Housing Improvements	1,075,000	1,080,000	1,130,000	2,565,000	3,125,000	3,175,000	4,275,000	4,475,000	6,500,000	7,125,000	34,525,000
Service Area - Managing Property & Assets	437,456	82,359	101,500	410,846	14,922	2,135	2,804	0	216,174	273,525	1,541,721
Total	1,512,456	1,162,359	1,231,500	2,975,846	3,139,922	3,177,135	4,277,804	4,475,000	6,716,174	7,398,525	36,066,721
PRIORITY - A Healthy, Active and Safe Borough											
Service Area - Environmental Health	0	10,000	0	0	60,000	0	12,000	0	0	0	82,000
Service Area - Streetscene/Bereavement	355,000	470,600	945,600	1,240,600	990,600	735,600	220,600	165,600	95,600	55,600	5,275,400
Service Area - Recycling and Fleet	756,000	4,166,000	609,500	351,000	2,899,500	565,500	1,026,500	3,431,000	1,395,000	3,109,000	18,309,000
Service Area - Leisure	546,000	681,000	331,000	1,187,000	2,017,000	7,017,000	650,000	0	0	0	12,429,000
Service Area - Museum	30,000	140,000	240,000	40,000	0	0	0	0	0	0	450,000
Service Area - Managing Property & Assets	387,463	49,035	40,456	273,403	220,498	89,622	819,395	215,754	219,340	329,716	2,644,682
Service Area - Engineering	172,215	15,873	170,193	806,287	1,287,105	0	0	0	0	0	2,451,672
Total	2,246,678	5,532,508	2,336,749	3,898,290	7,474,702	8,407,722	2,728,495	3,812,354	1,709,940	3,494,316	41,641,755
PRIORITY - A Town Centre for All											
Service Area - Managing Property & Assets	652,165	1,519,428	1,106,383	77,126	179,250	16,800	140,920	155,198	161,229	61,777	4,070,275
Total	652,165	1,519,428	1,106,383	77,126	179,250	16,800	140,920	155,198	161,229	61,777	4,070,275
CONTINGENCY	1,000,000	0	0	0	0	0	0	0	0	0	1,000,000
TOTAL	5,606,298	8,534,295	5,160,631	7,041,262	10,895,874	11,616,657	7,675,219	8,482,552	8,616,343	10,969,619	84,598,751
FUNDING											
Capital Receipts	3,508,298	3,927,295	1,836,132	500,000	500,000	8,000,000	5,773,719	4,096,552	6,277,343	6,920,619	41,339,958
External Contributions	1,335,000	2,065,000	2,765,000	1,015,000	1,025,000	1,015,000	1,025,000	1,015,000	1,015,000	1,025,000	13,300,000
ICT Development Fund	117,000	50,000	50,000	50,000	50,000	15,000	50,000	40,000	29,000	15,000	466,000
Fleet Replacement - Leasing/Borrowing	646,000	2,492,000	509,500	251,000	2,799,500	465,500	826,500	3,331,000	1,295,000	3,009,000	15,625,000
Prudential Borrowing	0	0	0	5,225,262	6,521,374	2,121,157	0	0	0	0	13,867,793
TOTAL	5,606,298	8,534,295	5,160,632	7,041,262	10,895,874	11,616,657	7,675,219	8,482,552	8,616,343	10,969,619	84,598,751

Annex C – Prudential Indicators

Capital Prudential Indicators

Actual and Estimate of Capital Expenditure

31/03/18 Actual (£000's)	31/03/19 Estimate (£000's)	31/03/20 Estimate (£000's)	31/03/21 Estimate (£000's)	31/03/22 Estimate (£000's)
6,296	2,549	5,606	8,534	5,160

The Capital Financing Requirement (The Councils Borrowing Need)

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. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR projections are below:

31/03/18 Actual (£000's)	31/03/19 Estimate (£000's)	31/03/20 Estimate (£000's)	31/03/21 Estimate (£000's)	31/03/22 Estimate (£000's)
4,405	4,405	4,315	4,225	4,135

The amounts shown above from 2019/20 onwards allow the Council to borrow during those years to finance capital expenditure which cannot be funded from other revenue or capital resources. However, the likelihood of individual schemes, the timings and the amounts involved cannot be assessed with certainty at this point.

The sale of Council assets for capital receipts will have a significant impact upon the CFR, if sales are made the Council's borrowing requirement will be reduced, if not the Council's borrowing requirement will be greater.

Affordability Prudential Indicators

Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Financing Costs comprise the aggregate of: interest payable, interest receivable and investment income; the amount charged as MRP; depreciation and impairment charges that have not been reversed out of the revenue account.

Net Revenue Stream is defined as the 'amount to be met from government grants and local taxpayers'. This is the Council's 'budgetary requirements' figure shown in the General Fund Revenue Budget, being the net expenditure for the year before deducting government grants (Revenue Support and Business Rates Retention) and adjusting for the Collection Fund surplus/deficit. The relevant figures for this Council are set out in the table below:

	2017/18 Actual (£000's)	2018/19 Estimate (£000's)	2019/20 Estimate (£000's)	2020/21 Estimate (£000's)	2021/22 Estimate (£000's)
Net Revenue Stream	13,820	13,335	13,050	13,311	13,577
Financing Costs	(15)	149	155	267	607
Ratio	-0.11%	1.11%	1.19%	2.00%	4.47%

Treasury Indicators

Limits to Borrowing Activity

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

Previously borrowing has not been used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure from these sources.

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed.

Operational boundary	2019/20 Estimate (£000's)	2020/21 Estimate (£000's)	2021/22 Estimate (£000's)	2022/23 Estimate (£000's)
Borrowing	7,500	7,500	7,500	7,500
Other long term liabilities	0	0	0	0

The Authorised Limit for External Borrowing

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 Council is asked to approve the following authorised limit:

Authorised limit	2019/20 Estimate (£000s)	2020/21 Estimate (£000's)	2021/22 Estimate (£000's)	2022/23 Estimate (£000's)
Debt	15,000	15,000	15,000	15,000
Other Long Term Liabilities	0	0	0	0

Limits on Interest Rate Exposures (fixed and variable interest rates)

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

Limit on Fixed Interest Rate Exposures (as a percentage of total borrowings / investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2018/19	100%	0%	100%	0%
2019/20	100%	0%	100%	0%
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%

Limit on Variable Interest Rate Exposures (as a percentage of total borrowings/ investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2018/19	100%	0%	100%	0%
2019/20	100%	0%	100%	0%
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%

In relation to both borrowing and investing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to take advantage of prevailing interest trends to obtain the best deal for the Council.

QUESTIONS TO THE MAYOR, CABINET MEMBERS AND COMMITTEE CHAIRS

To the Portfolio Holder for Planning and Growth:

1. In June 2018, Property Manager of Trinity Estates, Rebecca O’Neil wrote to the Head of Newcastle Borough Council’s Planning department, Mr Guy Benson regarding the failure of Housing Developer, Taylor Wimpey to rectify problems with public open space on the Bluebell Croft Estate, Butt Lane. The developer failed to install public open space to a correct standard and in line with the planning permission granted.

Newcastle Borough Council has failed to enforce planning restrictions in relation to this public open space. Trinity Estates cannot justify completing the works on this public open space via the service charge paid by residents to rectify an issue that will cost up to £30,000. The NHBC warranties in place for the site do not extend to the external common spaces.

Independent soil sample analysis were sent to the Newcastle Borough Council planning department confirming all of the above. The main public open space has sand below the soil, which stands on a heavily compacted substrate. In periods of heavy rain, water pools as it has nowhere to drain. The trees in this area are all dead as the roots cannot penetrate the sand.

Will the Cabinet Member for Planning and Growth take swift action by working with the planning department at Newcastle Borough Council to ensure Taylor Wimpey are held to account over this issue and that they immediately act to resolve the matter?

Cllr Kyle Robinson
.....

To the Portfolio Holder for Planning and Growth:

2. Can the Cabinet Member for Planning & Growth please outline exactly how much funding has been secured via 106 agreements for parks and play areas in the Talke & Butt Lane ward over the last two years? Please can this amount then be broken down by each individual park/play area?

Cllr Kyle Robinson
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To the Portfolio Holder for Finance and Efficiency:

3. Could The Portfolio holder for Finance & Efficiency inform the Council what mechanism is in place for monitoring the implementation of the Council’s Capital Programme?

Cllr Andy Fear
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