

CABINET - 4TH FEBRUARY 2004

CAPITAL FINANCE IN LOCAL AUTHORITIES

1. INTRODUCTION

- 1.1 At the meeting of the Cabinet in January, it was agreed in principle, that the Council should seek to become debt free by 31st March 2004, in order to gain additional resources that appear to be available through a transitional relief scheme, within the new Capital Finance Regulations.
- 1.2 It was agreed that a further report be made to this meeting of the Cabinet to clarify some of the outstanding technical issues which may influence the Council's decision on whether to go debt-free.
- 1.3 The final version of the Local Authorities (Capital Finance and Accounting) Regulations 2003 was laid before Parliament on 10th December 2003, and comes in to force on 1st April 2004.

2. FINANCIAL STRATEGY

- 2.1 One of the major concerns of the Council becoming debt free by 31st March 2004, is whether this would restrict the Council's ability to borrow to meet capital expenditure, should it be required at some time in the future.
- 2.2 Butlers, the Council's retained Treasury Management advisors, have confirmed that there is no provision in the current new regulations which would restrict the Council from future borrowing;
- 2.3 Their opinion is that Regulation 21 within the Local Authorities (Capital Finance and Accounting Regulations 2003) specifically identifies the date as 31st March 2004 by which a Council must be debt free in order to qualify for transitional relief scheme. There is no reference to a requirement to remain debt-free thereafter.
- 2.4 To qualify as 'Debt-free' the Council must meet two criteria - no long-term debt and an overall negative credit ceiling as at 31st March 2004. The forecast of the position indicates this can be achieved. The Council has a long-term debt position of £7.606 million; in order to meet the second criteria this debt must be repaid by 31st March.
- 2.5 To achieve this, it will be necessary to negotiate early redemption of two market loans, two loans from the Public Works Loan Board (PWLb) and 15 small market annuities. The estimated premium for early redemption of debt has been estimated at £908,000; this was based on assumptions regarding repayment dates and interest yield forecasts. Assuming there is a decision taken by the Cabinet to become debt-free, further discussions will be held with Butlers to assess the optimum time for repayment to minimise the overall cost to the Council.

- 2.6 Whilst the premium payable for early redemption on the PWLB loans is based on a formula, at this stage the premium payable on the market loans has been estimated on the same basis. Early contact with the lenders for the market loans will need to be undertaken to establish the actual premium required.
- 2.7 The report to Cabinet in January identified three options for a future financial strategy:
- Status Quo - maintaining existing debt with no new borrowing;
 - Premature repayment of debt, and,
 - Maintaining existing debt with additional borrowing.

The latter forecast highlighted the potential savings that could be achieved from borrowing to finance the purchase of capital equipment instead of lease finance, whilst maintaining the current level of debt.

- 2.8 There is now the potential for a fourth option which is to become debt-free as at 31st March 2004 and borrow again to enable assets such as IT equipment, to be purchased instead of lease financed. This option however, will need to be properly evaluated against other financing options to ensure optimisation of the Council's total resources.
- 2.9 The only other issue which needs to be highlighted is the consequences to the Council of future funding of the Coast Protection programme of works. At the present time, each approved scheme is made up of three elements of finance - Cash Grant from DEFRA, Cash Grant from HCC and a Supplementary Credit Approval (SCA) which offsets the contribution from NFDC.
- 2.10 The SCA has provided the Council with the power to borrow money to cover this expenditure, and a contribution is made towards the interest incurred on this debt through the Revenue Support Grant. To maintain a debt-free position in the future, the Council will need to finance this expenditure from its own resources, although the RSG will continue to provide an element towards expenditure on coast protection work.

3. FINANCIAL IMPLICATIONS

- 3.1 The achievement of debt-free status by 31st March 2004, will enable the Council to qualify for the transitional relief arrangements for the years 2004/05 to 2006/07, generating an estimated additional £4.725 million for affordable housing.
- 3.2 Subject to agreement with the District Auditor, there will be a further £2.3 million available towards capital or revenue expenditure from the Commutation Reserve.
- 3.3 Once the Council's debt is repaid, the balance of investments held under the current 'set-aside' regulations, will become available,

subject to specific technical criteria, to meet future capital expenditure or retained as an investment. This is estimated to be £5 million.

- 3.4 The optimum use of these resources will be more fully evaluated and reported to Members as part of a future financial strategy for the Council.

4. RECOMMENDATIONS

It is recommended that the Cabinet:

- 4.1 Note the current advice on the Council's future ability to borrow to meet capital expenditure;
- 4.2 Agree to pursue becoming debt-free by 31st March 2004.

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Background Papers:

Part 1 Local Govt Bill
CIPFA Prudential Code
Local Authorities (Capital
Finance and Accounting)
Regulations 2003
Report A - Cabinet 4th
January 2004.