

POLICY & RESOURCES SCRUTINY COMMITTEE - 4TH MARCH 2014

SUBJECT: TREASURY MANAGEMENT & CAPITAL FINANCING PRUDENTIAL INDICATORS MONITORING REPORT (1ST APRIL 2013 TO 31ST DECEMBER 2013)

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for the period 1st April 2013 to 31st December 2013.
- 1.2 To review the Treasury Management Strategy for 2013/2014 as set out in the Annual Investment Strategy and Capital Financing Prudential Indicators Report.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services 2009, which was adopted by the Council on 12th October 2010, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). TMP6 (Reporting Requirements and Management Information Arrangements) provides for the submission of monitoring reports to the appropriate Committee on a quarterly basis.
- 2.2 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.
- 2.3 The Authority's Annual Investment Strategy and Capital Financing Prudential Indicators for 2013/2014 were approved by Council on 27th February 2013.

3. LINKS TO STRATEGY

- 3.1 Treasury Management Strategy 2013/2014 as agreed by Council on 27th February 2013.

4. THE REPORT

4.1 Loans administered by Caerphilly CBC

- 4.1.1 Due to the current level of interest rates, the difference between long-term borrowing rates and short-term investment rates has given rise to a cost of carry risk. The current policy of internal borrowing is no longer sustainable, but where prudent the policy of internal borrowing

will be utilised. A review of the balance sheet for 2012/2013 shows that the level of internal borrowing was not as high as anticipated. At 31st March 2013 the internal borrowing position was £43m.

- 4.1.2 The Annual Treasury Management Strategy approved by Council in February 2013 indicated that there would be a need to borrow £11.8m in 2013/2014 to part fund the Capital Programme. £7.8m of this total would be met through supported borrowing approvals (inclusive of £2.8m for the Highways LGBI capital works). The remaining £4m was intended to be raised for the Bargoed Cinema development; however, this has now been deferred until 2014/15. Planned borrowing in 2012/13 for Caerphilly Library did not take place and the Authority will now raise £5.2m of new borrowing to fund this development in 2013/14. A separate budget has also been created to support the borrowing required for the HRA WHQS Programme.
- 4.1.3 As at the 31st December 2013 the only loan raised was a loan of £300k secured from the Welsh Rugby Union (WRU) during June 2013. This loan is being used to part fund the Ystrad Mynach sports development complex and is repayable over ten years on an annuity basis at a rate of 1%. The rate compares favourably with a ten-year annuity loan with the PWLB (average rate for the reported period is 3.57%).
- 4.1.4 Borrowing rates continue to remain volatile and have generally been higher than originally forecasted at the time the 2013/2014 Treasury Management Strategy was set, but lower than the budget rate. Progress continues to be made on the UK economic recovery but still remains fragile. The ongoing US debt crisis will continue to be a burden to world markets resulting in a demand for safe haven securities such as UK Gilts, and consequently lower PWLB yields.
- 4.1.5 During the period covered by this report, PWLB loans to the value of £5.1m were repaid on maturity. Such loans had an average interest rate of 8.75%. As at 31st December 2013 the value of the Authorities debt portfolio was £182.35m.
- 4.1.6 The Authority's debt portfolio variable interest rate proportion at 31st December 2013 stood at 10.96%, which is within the Council's determination of 50%. The variable debt relates to two loans with a combined value of £20m.

4.2 Rescheduling

- 4.2.1 The Annual Strategy allows for the utilisation of debt rescheduling providing for both in year and future year savings and additional revenue resources. No rescheduling opportunities presented themselves during the period covered by this report.

4.3 Loans administered by Newport City Council

- 4.3.1 These are non-PWLB loans held by the former Gwent County Council and administered by Newport City Council. At the start of the current financial year the amount outstanding relating to Caerphilly CBC was £79k, and £39k was repaid during the period covered by this report. A final repayment will be made in January 2014.

4.4 Long-Term Investments

- 4.4.1 The Council no longer holds any long-term investments.

4.5 Short-Term Investments (Deposits) – Up to 364 Days

- 4.5.1 The value of short-term deposits at 31st December 2013 was £85.03m and is made up of a spread of periods up to a maximum of three months. The average rate for these deposits was 0.26%, which compares favourably with the Debt Management Account Deposit Facility (DMADF) deposit rate of 0.25%, and is above the target rate, as detailed in the Annual

Treasury Management Strategy report to Council, of 0.25%. The low returns reflect the Council's current risk sentiment as well as current interest rates. The portfolio as at 31st December 2013 comprised of £68.94m deposited with Local Authorities, £13.39m deposited in the DMADF and £2.70m deposited with Call accounts.

- 4.5.2 The unusually high call account balance as at 31st December 2013 relates to the transfer of various balances held on behalf of Social Services, CCBC Schools, Electoral Services and Petty Cash Establishments. With the exception of Electoral Services, these balances were transferred during December following the adoption of the mitigated risk strategy arising from the potential insolvency of the Co-Operative Bank, in accordance with the exempt report agreed by Cabinet on 4th June 2013.

4.6 Economic Outlook

- 4.6.1 UK growth continues to gain momentum with strong data in the first three quarters of 2013 alongside the recovery in house prices propelled by government initiatives to boost mortgage lending. Consumer price inflation continues to fall from the high of 5.2% in September 2011 to 2.0% in December 2013. There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The Monetary Policy Committee (MPC) repeatedly emphasised that the 7% unemployment threshold was not an automatic trigger for a rate rise.
- 4.6.2 In Europe, a fragile economic recovery, subdued inflation and depressed bank lending resulted in the European Central Bank cutting the repo rate from 0.50% to 0.25%.
- 4.6.3 In the US, economic recovery is also gaining momentum despite the partial government shut down in the wake of the political deadlock over the national debt, which will continue to create volatility in international financial markets.
- 4.6.4 Taking this volatility into consideration, the current Treasury Management Strategy remains unchanged, and attitude to risk continues to be one of caution when managing surplus cash. Surplus cash is being deposited with either the DMADF or other Local Authorities, albeit at unfavourable rates when compared to the market.

4.7 Icelandic Banks

- 4.7.1 The Authority had deposits in Heritable and Landsbanki totalling £15m at the time of the collapse of the Icelandic Banks.
- 4.7.2 **Heritable Bank** - The amount recovered at 31st December 2013 was £9.49m against an outstanding claim of £10.097m. The last dividend was received in August 2013. The latest information that was disclosed in the 2012/13 Statement of Accounts used a recovery rate of 88%, but taking into consideration the latest dividend the recovery to date is now 94%. Only £604k of the claim remains outstanding and the estimated date of recovery is currently unknown.
- 4.7.3 **Landsbanki** – Following an auction process on the 30th January 2014 the Authority sold its outstanding claim against Landsbanki. The original investment was £5m and the total cash recovered including the auction proceeds is £4.62m (which includes partial recovery of the original investment and interest due). Members should note that this now concludes the recovery action against Landsbanki. In light of the sale of the outstanding claim the impairment provision has been reviewed resulting in a transfer to General Fund balances of £1.262m.

4.8 Bank Tender

- 4.8.1 Following the Co-Operative Bank's announcement to exit the local authority market, the Authority has appointed Barclays Bank plc on an interim basis. Work will commence in

February 2014 to appoint a new bank via the EU tendering process.

4.9 Treasury Management Advisors Contract

4.9.1 The current advisor contracts will expire on 31st March 2014. The Authority is undertaking a procurement exercise and will offer a new contract that will commence on 1st April 2014.

4.10 Prudential Indicators

4.10.1 Capital Financing Requirement- The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. In practice, the raising and repaying of loans is determined primarily by professional / expert advice, and may not necessarily take place in the relevant year. In order to create an operating environment within which the Treasury Manager can legitimately react to appropriate advice, the various authorised limits as identified in Appendix 1 are set at a level in excess of the CFR. In the financial year to date, the Authority has been operating within the approved limits. Appendix 2 shows a projected CFR value of £290.28m as at 31st March 2014. The actual CFR as at 31st March 2013 was £284.17m.

4.10.2 Prudential Indicators – "Prudence"- The Prudential Indicators for Treasury Management are shown in Appendix 1 and the Authority is currently operating within the approved limits.

4.10.3 Prudential Indicators – "Affordability"- There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority. These are identified in Appendix 2 and currently show a projected reduction from the original budget.

4.10.4 Capital Expenditure and Funding- A summary of capital expenditure and funding is attached at Appendix 3. It is anticipated that the approved capital budgets will either be fully expended by 31st March 2014 or carried forward into 2014/15 where there is slippage on specific schemes.

5. EQUALITIES IMPLICATIONS

5.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

6. FINANCIAL IMPLICATIONS

6.1 As detailed throughout the report.

7. PERSONNEL IMPLICATIONS

7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

9.1 Members are asked to note the contents of this report.

10. REASONS FOR THE RECOMMENDATIONS

10.1 Compliance with the CIPFA “Code of Practice for Treasury Management in the Public Services”.

11. STATUTORY POWER

11.1 Local Government Acts 1972 and 2003.

Author: N. Akhtar – Group Accountant (Financial Advice and Support)
E-mail: akhtar@caerphilly.gov.uk Tel: 01443 863313

Consultees: N. Scammell – Acting Director of Corporate Services & S151 Officer
S. Harris - Acting Head of Corporate Finance
A. Southcombe – Finance Manager, Corporate Services
Cllr K. Reynolds, Deputy Leader/Cabinet Member for Corporate Services

Background Papers:

- Treasury Management Working Papers – Accountancy Section.
- CIPFA “Code of Practice for Treasury Management in the Public Services”
- The Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004

Appendices:

Appendix 1 – Treasury Management Prudential Indicators – Prudence
Appendix 2 – Capital Finance Prudential Indicators – Affordability
Appendix 3 – Capital Expenditure and Funding

Appendix 1 Prudential Indicators - Treasury Management

	Budget 2013/14	Revised 2013/14
	£000	£000
Authorised limit for external debt -		
Borrowing	259,543	259,543
Other long term liabilities	42,604	42,604
Total	302,146	302,146
Operational boundary for external debt -		
Borrowing	207,634	195,196
Other long term liabilities	42,604	42,604
Total	250,238	237,800
Upper limits for interest rate exposure		
Principal outstanding on borrowing	207,634	195,196
Principal outstanding on investments	65,000	65,000
Net principal outstanding	142,634	130,196
Fixed rate limit – 100%	142,634	130,196
Variable rate limit – 50%	71,317	65,098
Upper limit for total invested for over 364 days	10,000	10,000

Maturity structure of fixed rate borrowing: Debt outstanding at 31 March 2014 (includes new debt projected to be taken)	Upper Limit	Lower Limit	Revised 2013/14	
			£000	
Under 12 months	35%	0%	-	0%
Over 12 months and within 24 months	40%	0%	780	0%
Over 2 years and within 5 years	50%	0%	11,200	6%
Over 5 years and within 10 years	75%	0%	6,661	3%
Over 10 years	95%	0%	176,555	90%
			195,196	100%

Appendix 2- Prudential Indicators - Capital Finance

Ratio of Financing costs to net revenue stream	Budget 2013/14	Revised 2013/14
General Fund	£000	£000
Principal repayments (MRP)	8,128	7,861
Less commutation	-	-
Net interest costs	9,250	8,461
Debt Management costs	79	79
Rescheduling discount	-226	-226
Investment income	-163	-203
Interest applied to internal balances	712	699
Total General Fund	17,780	16,671
Net revenue stream	337,466	337,466
Total as percentage of net revenue stream	5.27%	4.94%
Housing Revenue Account		
Principal repayments	914	918
Interest costs	2,082	1,937
Rescheduling discount	-58	-58
Debt Management costs	15	15
Total HRA	2,953	2,812
Net revenue stream	40,123	40,123
Total as percentage of net revenue stream	7.36%	7.01%

Estimate of incremental impact of capital investment on Council Tax and Housing Rents	Budget 2013/14	Revised 2013/14
General Fund	£000	£000
costs of unsupportive borrowings - principal	470	470
- interest	607	607
Loss of investment income	32	32
Running costs		
Total	1,109	1,109
Impact on Band D council tax **	18.67	18.67
Housing Revenue Account		
Loss of investment income	16	16
Running costs	0	0
Total	16	16
Impact on average weekly rent **	0.03	0.03
** These are notional calculations as per regulations		

Capital Financing Requirement	Budget 2013/14	Revised 2013/14
	£000	£000
Council Fund	246,195	246,195
Housing Revenue Account	44,081	44,081
Total Authority	290,276	290,276

Appendix 3 - Capital Expenditure and Funding

	Budget 2013/14	Revised 2013/14
Expenditure		
	£000	£000
Council Fund	29,470	30,470
Housing Revenue Account	15,553	15,553
Total	45,023	46,023
Funding		
Surplus b/f	3,787	3,787
RCCO - General Fund	1,979	1,979
- HRA	8,009	8,009
Earmarked reserves- General Fund	3,800	3,800
Borrowings - Supported (GF)	7,760	7,760
Borrowings - Unsupported (GF)	4,200	5,200
S106 applied	2,200	2,200
General Capital Grant - WAG	3,027	3,027
Specific Grants	2,819	2,819
Capital receipts applied	998	998
Borrowings - Unsupported (HRA)		
Major Repairs Allowance	7,300	7,300
Capital receipts applied - HRA	244	244
Total	46,123	47,123
Surplus	1,100	1,100