

**POLICY AND RESOURCES SCRUTINY COMMITTEE –
3RD MARCH 2009**

**SUBJECT: TREASURY MANAGEMENT & CAPITAL FINANCING PRUDENTIAL
INDICATORS MONITORING REPORT – 3RD QUARTER 2008/09**

REPORT BY: CHIEF EXECUTIVE

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 October 2008 to 31st December 2008.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services, which was adopted by the Council on 4th March 2004, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). The Council subsequently approved the detailed TMPs on 27th May 2004. 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 2008/09 were approved by Council on 28th February 2008.

3. LINKS TO STRATEGY

- 3.1 The report has links to the four basic strategic themes of the Council, taking into account cross-cutting issues where relevant. It has specific links to the effective and efficient application and use of resources.

4. THE REPORT

4.1 Treasury Management

4.2 Borrowing.

4.3 Loans administered by Caerphilly CBC

The Council's original borrowing requirement for 2008/2009 is £18.028m. and is made up of

the following:

- Repayment of maturing PWLB loans - £7.082m
- Funding of 2008/09 capital programme - £10.946m

During the period covered by this report, PWLB loans to the value of £104k were repaid on maturity.

PWLB interest rates have been extremely volatile throughout the first half of the current year, generally being far in excess of the target rate for new borrowing of 4.50% set in the Annual Strategy. However, there have been several occasions when market conditions have caused rates to fall. Having been advised by Sector that rates were predicted to fall, it was decided to take part of the current year's requirement and as a result new loans to the value of £7.5m were raised for 50 years at 4.36%.

The portfolio's variable interest rate proportion at 31st December 2008 stood at 16.40%, which is within the Council's determination of 50%.

4.4 Rescheduling

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

However, subsequent to this period, movements in PWLB rates created an opportunity to prematurely repay/reschedule debt. As interest rates achievable on investments are now lower than those payable on loan debt outstanding, the decision was taken to prematurely repay some £33m of PWLB loans to reduce interest costs and also reduce the Council's exposure to market risks. This action has resulted in savings of some £200k in interest charges for 2008/09 and a discount of some £537k. It should be noted that both these sums are to be apportioned between the Council Fund and the HRA and that the discount must be applied to the revenue account over a 10 year period.

The full year effect of the interest savings is some £1.47m, again apportioned between Council Fund (£1.151m) and HRA (£319k).

4.5 Loans administered by Newport City Council

These are non-PWLB loans held by the former Gwent County Council and administered by Newport City Council, which continue on a reducing basis until 2013/2014.

At the start of the financial year the amount outstanding relating to Caerphilly CBC was £385k. During the period covered by this report, no repayments were due.

4.6 Investments

4.7 Long-term Investments

The Council currently holds long-term investments to the value of £10m at an average yield of 5.23%.

4.8 Short-term Investments – up to 364 Days

The value of short-term investments at 31st December 2008 was £99.785m and was made up of a spread of investment periods from instant access call accounts to 364 days. The average rate as at 31st December 2008 for these investments was 3.35%, which no longer compares favourably with the target rate, as detailed in the Annual Strategy 2008/09 report to Council on

28/02/08, of 5.00%. This average rate is due to the fact that the bank rate fell to 2.00% (on 4th December 2008) and the decision to invest mainly in the Debt Management Account Deposit Facility whose rates were running at around 1.00% from mid December.

Members are advised that the foregoing excludes the sum of £15m. deposited in Icelandic banks.

4.9 Prudential Indicators

4.10 Capital Financing Requirement

The capital financing requirement 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 capital financing requirement.

Appendix 2 shows the estimated value of the Capital Financing Requirement as at 31 March 2009 as £250.151m.

4.11 Prudential Indicators – “Prudence”

The Prudential Indicators for Treasury Management remained unchanged from those previously reported, and are shown in **Appendix 1**. The authority is currently operating within approved limits.

4.12 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** attached. The forecast column indicates that, as a result of the Treasury Management activities to date, mainly in investment income and rescheduling, there are small reductions in the ratio of financing costs to revenue streams, both in General Fund and Housing Revenue.

4.13 Capital Expenditure and Funding

Capital Expenditure as indicated in **Appendix 3** has increased significantly since the budget was prepared due in the main to the increased level of Assembly specific grants.

5. FINANCIAL IMPLICATIONS

- 5.1 Whilst the final amount of interest to be earned in the current year will be affected by the investment in Icelandic banks and the projected cut in interest rates, it is anticipated that additional income in excess of £1,296k will still be achieved due to the higher level of balances and the level of interest rates for the early part of the year. However, this sum includes interest due on internal balances which shows an increase of a net £430K including some £500k likely to be accrued on the Job Evaluation reserve.
- 5.2 The budget implications of the interest saved and the discount achieved on the premature repayment of PWLB loans are included in the Corporate Services and Miscellaneous Finance budget monitoring report presented to this same Committee.

6. PERSONNEL IMPLICATIONS

6.1 There are no personnel implications

7. RECOMMENDATIONS

7.1 Members are asked to note the report

8. REASONS FOR THE RECOMMENDATIONS

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

9. STATUTORY POWER

9.1 Not applicable

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Cllr. J. Taylor – Chairman, Policy & Resources Scrutiny Committee

Cllr. M. E. Sargent – Vice-Chairman, Policy & Resources Scrutiny Committee

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