



POLICY AND RESOURCES SCRUTINY COMMITTEE – 30TH SEPTEMBER 2015

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2014/15

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND S151 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 2014/15.

2. SUMMARY

- 2.1 The revised Code of Practice on Treasury Management in the Public Services, 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). The Council subsequently approved the detailed TMPs on 23rd November 2010. 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 2014/15 were approved by Council on 26th February 2014.

3. LINKS TO STRATEGY

- 3.1 This report has links to the Treasury Management Strategy 2014/15 as agreed by Council on 26th February 2014.
- 3.2 This report has specific links to the effective and efficient application and use of resources.

4. THE REPORT

4.1 Background – Interest Rates

4.1.1 The Monetary Policy Committee (MPC) decreased the Bank Rate in March 2009 to 0.50% as part of the Government's strategy to stimulate the economy. The Bank Rate has remained at 0.50% throughout 2014/15 and the level of the Bank of England's quantitative easing programme remained at £375bn as at 31 March 2015.

4.2 Treasury Management Advice

4.2.1 The Authority receives treasury management advice from Arlingclose Limited.

4.3 Borrowing

4.3.1 In December 2014 the Authority raised £36.52m of new 25-year PWLB debt to fund capital expenditure. A loan rate of 2.82% on an annuity loan structure had been achieved. PWLB rates had been in free fall since mid-November as a result of volatility in the bond markets caused by uncertainty in the Eurozone (the start of the quantitative easing by the European Central Bank; fear of Greece defaulting; falling oil prices and poor economic data). Investors had sought comfort in Gilts, causing Gilt yields to fall and subsequently PWLB yields had fallen. The debt taken was planned debt that had been deferred since 2011/12 financial year, but budgeted within the medium term financial plan. The £36.52m loan includes LGBI Highways; Caerphilly Library; supported borrowing approvals and an element of the LGBI 21st Century Schools.

4.3.2 Borrowing rates were volatile throughout 2014/15 with the 25-year maturity loan rate reached a high of 4.50% and a low of 3.05%, and an overall average rate of 3.94%. The average rate for a 25 year annuity loan was 3.59%.

4.3.3 During the period covered by this report, PWLB loans to the value of £780k were repaid on maturity. Such loans had an average interest rate of 7.45%. A loan repayment of £30k was also made to the WRU in accordance with the loan agreement.

4.3.4 As at 31st March 2015 the value of the Council's debt portfolio was £217.9m and comprised of £40m LOBO loans, £177.7m of PWLB loans and a £270k WRU loan.

4.4 Rescheduling

4.4.1 No loans were rescheduled during 2014/15.

4.5 Investments

4.5.1 Short-term Investments – up to 364 Days -Throughout the year the in-house team managed investments averaging £108.4m. The return on these investments, which ranged from overnight deposits and deposits with a maximum duration of three months, was 0.28% compared with the target of 0.25%. The higher return was due to the fact that deposits were made with Local Authorities securing a higher return than the DMADF rate of 0.25%. The return of 0.28% reflects the Council's current risk sentiment as well as current interest rates. The amount of interest earned on these investments was £309k compared with the budget estimate of £168k.

4.5.2 The value of short-term deposits as at 31st March 2014 was £133.7m and comprised of £97.2m deposited with Local Authorities and £36.5m deposited in the DMADF.

4.5.3 Long-term Investments- The Council held no long-term investments during the reported period other than a historical balance of £4k.

4.6 HRA Self Financing

4.6.1 On 31st March 2015 the Authority agreed with the PWLB to raise a £75.9m 21.5 year Maturity loan, at a rate of 4.17%. The loan proceeds will be received on the 2nd April 2015 and will impact 2015/16 financial accounts. The purpose of the loan was to enable the Authority to exit the HRA Subsidy arrangement. The loan proceeds will be transferred to the Welsh Government on the 2nd April 2015 in accordance with the HRA Buyout agreement. Further details of the HRA buyout can be found in the Cabinet / Special Council report of 17th December 2014.

4.7 **Prudential Indicators**

4.7.1 Capital Financing Requirement

4.7.1.1 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. During the year, the Authority operated within the approved limits.

4.7.1.2 **Appendix 1** shows the value of the Capital Financing Requirement as at 31st March 2015 based on the unaudited Balance Sheet position. This is calculated to be £273.5m.

4.7.2 Prudential Indicators – “Prudence”

4.7.2.1 The Prudential Indicators for Treasury Management are shown in **Appendix 1**. Whilst the Authorised Limit has remained unchanged when compared to the original Council approved figure, the Operational Boundary limit has increased slightly by 1.8% as a result of new debt taken in December 2014.

4.7.3 Prudential Indicators – “Affordability”

4.7.3.1 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**.

4.7.3.2 Financing Costs to Net Revenue Stream- General Fund - the unaudited out-turn shows a decrease on the budgeted position. This is mainly attributable to reduced interest costs as a result of deferred borrowing for the capital programme.

4.7.3.3 Financing Costs to Net Revenue Stream- Housing Revenue Account (HRA) - The ratio is lower mainly as a result of reduced interest charges relating to the apportionment between General Fund and the HRA.

4.7.3.4 Incremental Effect of Capital Investment- The General Fund shows a decrease in this measure as a result of the method of funding the capital programme from internal resources rather than externally funding expenditure. The HRA also shows a decrease in this measure as a result of the method of funding the capital programme from internal reserves.

4.7.4 Capital Expenditure and Funding

4.7.4.1 Capital Expenditure is reported in **Appendix 3**, for information purposes. The table indicates the unaudited position as at 31st March 2015.

5. EQUALITIES IMPLICATIONS

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

6. FINANCIAL IMPLICATIONS

- 6.1 As presented throughout the report.

7. PERSONNEL IMPLICATIONS

- 7.1 There are no personnel implications.

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 report.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services".

11. STATUTORY POWER

- 11.1 Local Government Act 2003.

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Appendices

Appendix 1 Prudential Indicators – Treasury Management – Outturn Report
Appendix 2 Prudential Indicators – Capital Finance – Outturn Report
Appendix 3 Capital Expenditure and Funding – Outturn Report

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