Part I – Release to Press

Meeting:	**AUDIT / EXECUTIVE / COUNCIL**	**Agenda Item:**	**4**
Portfolio Area:	Resources		
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PRUDENTIAL CODE INDICATORS AND TREASURY MANAGEMENT STRATEGY 2014/15

KEY DECISION

Author – Crystal Leader Ext. 2351
Contributor – Clare Fletcher Ext. 2933
Lead Officer – Scott Crudgington Ext. 2185
Contact Officer – Clare Fletcher Ext. 2933

1. PURPOSE

1.1 To recommend to Council, the approval of the revised Treasury Management Strategy including its Annual Investment Strategy and the Prudential Indicators.

2. RECOMMENDATIONS

AUDIT COMMITTEE

2.1 That the Committee submit any comments on this report to the Executive and Council.

EXECUTIVE

2.2 That Executive recommend Council to adopt the 2014/15 Treasury Management Strategy as detailed in Appendix A.

2.3 That Executive recommend Council to adopt the Prudential Code Indicators as detailed in Appendix A, attachment six.

COUNCIL

2.4 That subject to the recommendations of the Audit Committee and the Executive, the 2014/15 Treasury Management Strategy as detailed in Appendix A and the the Prudential Code Indicators as detailed in Appendix A, attachment six be adopted

3. BACKGROUND

3.1 It is a requirement of the Local Government Act 2003 that from April 2004 Councils must 'have regard to the Prudential Code and set Prudential Indicators to ensure that capital investment plans are affordable, prudent and sustainable'.

3.2 The 2014/15 Strategy includes the revisions made to the 2013/14 Strategy reported as part of the mid year review to Audit Committee on 18th November 2013 and Council on 4th December 2013. The Strategy is also aligned to the Housing Revenue Account Business Plan, the Council's General Fund Medium Term Financial Strategy and Capital Strategy. The ongoing review of the Strategy is undertaken with regard to the CIPFA code of practice and guidance from the Treasury.

3.3 The collapse of the Icelandic banks in 2008, the continued turbulence in the financial markets and down-ratings of both countries and counterparties by the major credit agencies, present an ongoing requirement to ensure that Treasury Management functions are able to demonstrate that policies and practices minimise exposure to risk.

3.4 The Chartered Institute of Public Finance Accountants (CIPFA) updated the Treasury Management in Public Services Code of Practice (the Code) and the requirements for the Treasury Management Policy Statement. It is a requirement of the code of practice that the Code is formally adopted by the Council. This was mandatory from 1 April 2010.

3.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 (The Act), for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that arise as a result of capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are limited to a level which is affordable within the projected income of the Council for the foreseeable future. The costs included in the Treasury Management Prudential Indicators reflect the costs identified in the Council's General Fund and HRA Budgets for 2014/15.

3.6 Capital receipts from land and building sales are no longer a major source of funding for investment in the Council's assets. The Council has undertaken an asset management review which has identifed assets surplus to the Council's needs. Disposal of these surplus assets will generate capital receipts for the Council. The assets earmarked for disposal to support the capital programme have been included in the Capital Strategy reported to the January 2014 Executive.

3.7 The Council had over the last few years reduced its capital programme in line with diminishing capital resources. The Strategic Director (Resources) commissioned a 15 year investment need review, which is in part, based on stock condition surveys for buildings.

3.8 The Strategic Director (Resources) has set a debt cap for the maximum level of borrowing the General Fund can afford, which is currently set at £1.5Million total revenue impact by 2017/18. The current forecast included in the January Capital Strategy (excluding unsupported borrowing of £5.8Million) is already forecast to be £1.479Million by 2017/18 and if the the unsupported borrowing was included or interest rates rose by more than forecast would breach that debt cap.

3.9 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.10 This Strategy's Prudential Indicators (Appendix A, attachment six) includes HRA debt relating to the HRA self financing regime, and General Fund Prudential Borrowing.

3.11 This report will be considered by the Executive. The Audit Committee is the body nominated to provide scrutiny for the Treasury Management Strategy prior to approval at Council. Any comments that Audit Committee has (3rd February 2014) on the report will be reported to Executive (11th February 2014) and to Council (26th February 2014).

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Update on the Treasury Management Strategy

4.1.1 The Council's external debt figure is currently of £217.915Million. This is made up of £17.004Million borrowing to fund the HRA decent homes programme, £196.911Million for the HRA self financing settlement and £4Million for the acquisition of the Town Square. The only repayments this financial year will be £2Million of self financing debt on 28th March 2014 and £131,579 of Town Square debt on 19th February 2014.

4.1.2 At the 28 March 2014 the HRA debt will be £212Million, 5Million below its debt cap of £217Million. The debt figure is anything that would affect the HRA capital financing requirement, this would alos include the value of any transfer of land and properties from/to the General Fund.

4.1.3 The Council may take out part or all of the 2013/14 £2.994Million approved prudential borrowing plus the remaining Town Square purchase loans during the remainder of 2013/14, if the interest rate rises above the current forecast level or if the cash balance becomes too low.

4.1.4 The treasury management team has taken out two external PWLB loans totalling £4 million in 2013/14 to fund the Town Square programme. The treasury team has avoided additional external borrowing for the General Fund by using its cash and investment balances (effectively internal debt). The income lost to the Council has been 0.56% on balances used, compared to the cost of around 4.5% to borrow externally. It is planned to continue to do this for as long as it remains favourable to do so. However, this could build up an underlying interest cost pressure to the General Fund in the medium term, if the Council subsequently needs to borrow externally. This is because it will need to take out a number of years external debt at a higher rate than the 0.56%, representing a significant cost impact in the first year of external borrowing. Should borrowing interest rates rise beyond those included in the Council's Treasury projections or cash balances start to fall below those anticipated the Council will take out external loans.

4.1.5 The Council has forecast average investment returns for 2013/14 of 0.56%, and is budgeting for returns of 0.55% in 2014/15.

4.1.6 The provisions comply fully with the CIPFA Treasury Management Code 2011 and Guidance on Self Financing. The Council also complies fully with the investment guidance issued by Communities and Local Government (CLG). As part of the 2014/15 Strategy review and update the following are areas kept under review:

a) A Treasury Management presentation is planned to be given to the Audit Committee in 2014/15 on the Treasury Management Strategy.

b) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

c) A full mid year review of Treasury Management Strategy and performance is planned in 2014/15.

4.1.2 This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code: -

Area of Responsibility	Council Committee Officer	Frequency
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Council	Annually before the end of the year
Treasury Management Strategy/Annual Investment Strategy/MRP policy – updates or revisions at other times	Council	As required.
Annual Treasury Outturn Report	Council	Annually by 30 November after the end of the year

Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of Treasury Management performance	Audit Committee	Quarterly (General Fund monitoring report)

4.2 Prudential Code Indicators

4.2.1 The prudential code indicators as shown in Appendix A, attachment six have been updated for 2013/14 and subsequent years. The 2013/14 **net borrowing requirement** indicator is forecast at £210.389Million which is the total of loans taken less investment held. Which is HRA debt of £211.915Million, General Fund debt of £10.034Million and assumed investment balances of £11.56Million.

4.2.2 The Council's underlying need to prudentially borrow for the General Fund (as measured by the General Fund forecast capital financing requirement (GFCFR)), is £16.535Million for 2013/14, and £18.162Million for 2014/15. This indicator is the amount of capital expenditure that has been financed from borrowing to date, less any adjustments for statutory repayments (MRP) and any other adjustments e.g. relating to the transfer of assets.

4.2.3 The associated revenue cost has been included in the Council's General Fund Budget and included in the Prudential Indicators (Appendix A, attachment six). The imcremental impact of the revised Capital Strategy to General Fund is estimated to be £18.02 per band D property in 2013/14.

4.3 Treasury Management Strategy

Housing Revenue Account

4.3.1 The net debt settlement as a result of self financing was agreed at £199.911Million. This combined with the £17.773Million decent homes limit represents the debt cap on the HRA (£217.684Million). The HRA has borrowed £216.915Million against this debt cap, and repaid £3Million on 28 March 2013 and will repay another £2Million on 28 March 2014.

4.3.2 The maximum borrowing shown in the Prudential Indicators (Appendix A) for the HRA is the below the debt cap as outlined in paragraph 4.1.2. The debt cap exceeds the HRA Capital Financing Requirement (HRACFR), which represents the underlying need to borrow on the HRA. All planned capital expenditure on the HRA is funded from resources available either from the Housing Revenue Account or from grant funding to meet decent homes standards. The HRA CFR has therefore reduced in year by the value of the principal repayment, £2Million in 2013/14.

4.3.3 The current HRACFR indicator reflects the appropriation of land and dwellings from GF to HRA by 31 March 2014, with due regard to comply with the Council's borrowing limits of external debts.

4.3.4 It should be noted that interest rates have continued at their historic low level, with a forecast rise in June 2016 (Capita Interest Rate Forecasts 2014-2017, dated 14 January 2014). In addition, the Treasury announced the introduction of a Certainty Rate for borrowing, enabling Council's which have signed up to this to take out PWLB loans at 20 basis points below the standard PWLB rate.

4.3.5 The Council adopted a two debt-pool model, where debt structure and cost is managed separately for the HRA and the General Fund. Where new HRA loans are required but a loan is not taken out, this will result in an unfunded HRA CFR with the cash overdrawn position being dealt with through the interest on balances calculation. Where it is mutually beneficial the Council may move existing loans from the General Fund portfolio to the HRA portfolio and vice versa, recognising an internal premium or discount. This will avoid physically repaying and reborrowing, which would incur significant loss on the repayment spread (particularly in the PWLB).

4.3.6 It is not the intention of the Council to borrow in advance of need. However, should this happen as part of optimising the treasury management position of the Council and minimising risk, the transaction will be accounted for in accordance with proper practices, e.g.the HRA will be reimbursed interest on balances.

4.3.7 The settlement figure of £217,685,000 is the "Debt Cap". The HRA is not allowed to borrow above this amount. Any capital cashflows will need to be managed within this limit. The Council will be operating at or around the limit for the first 15 years of the 30 year HRA Business Plan. This presents a risk in terms of careful management of the capital programme. It also presents constraints in terms of transferring assets from the General Fund, which impact directly on the CFR of the HRA even if there would otherwise be headroom within the capital programme to finance it.

General Fund

4.3.8 The General Fund has an underlying need to borrow to meet both its share of historical apportioned debt prior to HRA self financing and to finance its capital programme from 2011/12 onwards.

4.3.9 The Council's General Fund CFR is estimated at £16.535Million for 2013/14, and £18.162Million for 2014/15.

4.3.10 The Council has budgeted to take out £6.034Million approved prudential borrowing during the remainder of 2013/14, and £2.306Million in 2014/15, if the interest rate rises above the current forecast level or if the cash balance becomes too low.

5. Implications

5.1 Financial Implications

5.1.1 The report is of a financial nature and outlines the Prudential Code Indicators and the principles under which the Treasury Management functions are managed. The level of on-going prudential borrowing required to resource the General Fund capital programme will be16% of net expenditure by 2017/18. In order to be financially sustainable, the Chief Financial Officers (CFO) set up a debt cap for the maximum level of borrowing the General Fund can afford at £1.5Million revenue impact per year by 2017/18, and require savings to be generated to meet this debt cap.

5.2 Risk implications

5.2.1 The current policy of not borrowing externally only remains financially beneficial while prevailing differentials between investment income rates and borrowing rates remain, and balances remain buoyant. When this changes, the Council may need to borrow several years borrowing at a higher rate. Leading to a significant additional cost in the one year.

5.3 Legal Implications

5.3.1 Approval of the Prudential Code Indicators and the Treasury Management are intended to ensure that the Council complies with relevant legislation and best practice.

5.3 Policy Implications

5.3.1 The proposed limits are in line with current policy.

5.4 Equalities and Diversity Implications

5.4.1 All the services identified in the report have their own Equalities Impact Assessments, which are reviewed where appropriate.

BACKGROUND DOCUMENTS

- Sector reports
- Strategy report

APPENDICES

- Appendix A – Treasury Management Strategy
- Appendix A attachment one – Treasury Management Statement
- Appendix A attachment two – Minimum Revenue Provision
- Appendix A attachment three – Specified and Non Specified Investments
- Appendix A attachment four – Approved Countries for Investment
- Appendix A attachment five – Treasury Management Scheme of Delegation and role of s151 officer
- Appendix A attachment six – Prudential Indicators