
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	14th FEBRUARY 2012	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) CHIEF FINANCE OFFICER Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/treasury management/strategy 2012-13
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2012/13	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Treasury Management Strategy for 2012/13 is considered and approved.
- 1.2 That the Prudential Indicators and Limits for 2011/12 to 2016/17 as set out in **Appendix 1** are approved.
- 1.3 That the Investment Strategy for 2012/13 including the associated counterparty (lending) list and policy is considered and approved.
- 1.4 That the final HRA debt settlement of £57.423m be noted and the Limit on Indebtedness for HRA purposes of £66.853m be approved

2.0 Purpose of the Report

- 2.1 To detail the Council's Prudential Indicators for its expected treasury operations for 2012/13 and beyond. This fulfils the requirements of the Local Government Act 2003, updated for the implications arising out of the Localism Act 2011. Three main areas are covered:
 - The CIPFA Prudential Code (2011) requires the reporting of the Indicators for Capital Finance in Local Authorities.
 - The Treasury Strategy in accordance with the CIPFA Code of Practice on Treasury Management.
 - The Investment Strategy in accordance with Government guidance (2010).

3.0 Executive Summary

The Prudential System for Capital Finance

3.1 The main aims of the national prudential system are to ensure that:

- Capital investment plans of local authorities are affordable and sustainable.
- Treasury management decisions are taken in accordance with best professional practice.
- Financial planning and asset management are integrated into the Council's overall corporate planning arrangements.

3.2 Treasury operations are measured within a set of prudential indicators. The main purpose of these indicators is to provide the limits and benchmarks to control the level of capital expenditure, borrowing and investment. The Council is expected to operate well within these limits, in particular when borrowing and investing.

The Treasury Management Strategy

3.3 The Strategy aims to provide transparency for treasury decisions including the use of counterparties, together with assessing how risk is managed on a day to day basis. The Strategy has been updated to reflect the implications of the HRA debt take-on under the new Self-Financing framework from 1st April 2012.

3.4 This borrowing, from the Public Works Loans Board (PWLB), will be undertaken on 28th March 2012 using a balanced portfolio structure. The strategy for repaying this debt has been included in the HRA Business Plan. This was approved by the Committee on 23rd January 2012 based on a debt-take on of £57.733m.

3.5 The final debt settlement (as notified by the Government) is £57.423m. This is approximately £310,000 lower than the figure notified in December 2011.

3.6 As reported to the Housing and Community Services Committee on 2nd February, this does not change the overall strategy for managing the debt. The Prudential Indicators included in this report are based on the final settlement figure.

3.7 The Strategy also reflects some additional requirements arising from the Localism Act 2011 regarding the reporting of new indicators.

Prudential Indicators

3.8 The relevant indicators required under the regulations are summarised in the following sections.

Estimated Capital Expenditure

- 3.9 This is the approved capital investment programme for the General Fund, together with stock investment proposals included in the HRA Business Plan. It also includes new capital projects approved by the Committee on 12th January 2012. The programme is summarised in the following table.

Estimated Capital Expenditure	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
General Fund	1,769,374	2,472,710	1,775,000	985,000	850,000	1,100,000
HRA	2,817,429	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000
TOTAL	4,586,803	6,972,710	7,275,000	6,485,000	6,350,000	6,600,000

- 3.10 The capital expenditure programme will be financed directly from government grants, external contributions, council reserves and capital receipts. No borrowing is planned to be undertaken to finance this expenditure, although the HRA investment is dependent upon the Council servicing the debt take-on under the new self-financing system.

Capital Financing Requirement (CFR)

- 3.11 The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the value of its assets contained in the Balance Sheet. It does not represent the amount of actual debt outstanding.
- 3.12 This is due to the fact that not all borrowing allowed has in effect taken place against this requirement, but is being financed internally through cash deposits and reserves.
- 3.13 The General Fund CFR is reduced each year by a statutory revenue charge (known as the Minimum Revenue Provision - MRP) but there is no similar requirement for the Housing Revenue Account.
- 3.14 This will continue to be the case under self-financing, although in future years, money will be set-aside to repay HRA debt in accordance with the proposed maturity structure. The expected CFR is detailed in the following table.

Expected CFRs	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
General Fund	8,188	7,926	7,676	7,438	7,214	7,002
HRA	62,882	62,882	62,882	62,882	62,882	62,882
TOTAL	71,070	70,808	70,558	70,320	70,096	69,884

- 3.15 The CFR on the General Fund will continue to reduce over the medium-term due to the MRP. This charge, which is £274,000 in 2011/12, is included in the Council's base budget.
- 3.16 Effectively, the MRP creates a cash amount in the Council's budget in order to write down the underlying borrowing requirement. The large CFR on the HRA includes the anticipated initial borrowing under self-financing, which is

expected to remain static over the medium-term in accordance with the Business Plan.

Operational Boundaries and Limits

3.17 These are summarised in the following table.

Debt Limits	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Authorised Limit	75,041	74,779	74,529	74,291	74,067	73,855
Operational Boundary	63,423	63,423	63,423	63,423	63,423	63,423

3.18 The Authorised Limit is the borrowing cap for the Council. It includes the CFR on the General Fund, plus the debt cap set by the Government on the HRA for self-financing, i.e. £66.853m. The Operational Boundary represents the expected fixed debt outstanding in the year, plus a provision for temporary borrowing of £5m.

Cost of Debt to Finance Capital Expenditure

3.19 The estimated cost of debt and to finance the capital programme contained in the consolidated budget proposals on council tax and housing rents are summarised in the following table.

Cost of Servicing Debt (per year)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Band D Council Tax	-£0.18	-£0.79	-£0.97	-£1.61	-£2.01	-£3.06
Per Council Dwelling	£12	£544	£544	£543	£579	£620

3.20 As there is no actual debt on the General Fund, the impact on Council Tax is positive as this represents interest on cash deposits. The surplus is expected to rise incrementally in the medium term in accordance with interest rates.

3.21 The cost per council dwelling rises significantly from 2012/13 as this includes the estimated interest on the HRA debt take-on.

Available Resources for Investment

3.22 This represents balances and reserves held for specific purposes and to act as a contingency / provision. These are the resources the Council has to invest and to internally finance any short term borrowing requirement. The estimated year end position is shown below.

Estimated Resources Available	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
TOTAL	11,904	10,311	8,168	6,864	5,808	4,657

3.23 The table shows an incremental use of balances and reserves as they are drawn down to finance spending. These levels may increase as additional resources, such as Section 106 receipts, are generated.

3.24 It is estimated that the Council will physically have an amount of £1m invested at the year end. In accordance with the Investment Strategy, this will continue to be held in short-term (less than 364 days) reserve accounts.

4.0 Detail

Prudential Indicators for Capital Expenditure and Borrowing

- 4.1 The Local Government Act 2003 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and in doing so to calculate and monitor a set of prudential indicators. The Code and indicators should sit alongside the main financial plan.
- 4.2 The prudential framework is designed to control the level of borrowing and investment activity at a local level. The indicators themselves either summarise the expected treasury activity or place limits upon the activity that reflect the outcome of the Council's underlying capital expenditure and borrowing requirements.
- 4.3 A fundamental part of the Code is the requirement to adopt and utilise a Treasury Management Strategy. The Council's proposed strategy for 2012/13 is detailed in **Appendix 2**. The Prudential Indicators are detailed in **Appendix 1** with comments and analysis in the following sections.

Capital Expenditure and Financing

4.4 The approved capital programme is summarised in the following table.

Estimated Capital Expenditure	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
General Fund	1,769,374	2,472,710	1,775,000	985,000	850,000	1,100,000
HRA	2,817,429	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000
TOTAL	4,586,803	6,972,710	7,275,000	6,485,000	6,350,000	6,600,000
Financed By						
Government Grants	2,896,478	250,000	250,000	250,000	250,000	250,000
External / Partnership	308,668	1,303,710	300,000	100,000	330,000	600,000
Revenue Contributions	161,000	55,000	0	0	0	0
Capital Reserves	335,638	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000
Capital Receipts	885,019	864,000	1,185,000	535,000	270,000	250,000
TOTAL	4,586,803	6,972,710	7,235,000	6,385,000	6,350,000	6,600,000

- 4.5 The table highlights that the 5-year investment programme is fully funded. There is no requirement to enter into any borrowing, i.e. there is no net financing requirement."
- 4.6 If all financing is not secured, expenditure can be curtailed or other resources and reserves identified. Borrowing is undertaken as a last resort to meet any shortfall and this would be undertaken prudentially within the Council's debt limit. It is not expected that any additional borrowing will be required.

The Council's Borrowing Need or Capital Financing Requirement (CFR)

- 4.7 The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the net value of its assets contained in the Balance Sheet. Capital expenditure that has not been immediately paid for will increase the CFR through additional borrowing.
- 4.8 The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge called the Minimum Revenue Provision (MRP). Annual amounts are included in the MTFP.
- 4.9 There is no requirement to make a MRP for the HRA. This will continue to be the case under self-financing, although in future years, money will be set-aside to repay HRA debt in accordance with the proposed maturity structure.
- 4.10 A summary of the CFR estimates is shown in the following table.

Expected CFRs	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
CFR b/fwd	13,921	71,070	70,808	70,558	70,320	70,096
Add Net Financing	57,423	0	0	0	0	0
Less MRP	-274	-262	-250	-238	-224	-212
Less VRP	0	0	0	0	0	0
CFR c/fwd	71,070	70,808	70,558	70,320	70,096	69,884
General Fund Proportion	8,188	7,926	7,676	7,438	7,214	7,002
HRA Proportion	62,882	62,882	62,882	62,882	62,882	62,882

- 4.11 The net financing in 2011/12 reflects the debt take-on amount under self-financing. This will be borrowed prior to 1st April 2012 (on 28th March 2012). Interest for the 3 days in 2011/12 will be reimbursed by the Government.

The Use of the Council's Resources and the Investment Position

- 4.12 The Council has available at any one time, reserves and balances which are held to finance future expenditure commitments or to act as a contingency sum as recommended by the Chief Finance Officer.
- 4.13 These balances are available for investment on a short-term basis in accordance with the Investment Strategy. The expected level of reserves and balances is shown in the following table.

Usable Reserves	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
General Fund	3,095	2,546	2,165	1,934	1,534	925
Earmarked Reserves	2,435	2,285	2,135	1,985	1,835	1,685
HRA	1,927	1,947	1,570	1,232	1,046	954
Capital Receipts Reserve	2,955	2,141	1,006	521	301	101
Capital Grants	1,492	1,392	1,292	1,192	1,092	992
TOTAL	11,904	10,311	8,168	6,864	5,808	4,657

4.14 The table shows an incremental use of balances and reserves as they are drawn down to finance spending. These levels may increase as additional resources, such as Section 106 receipts, are generated.

4.15 It is expected that the Council will physically have an amount of £1m invested at the year end. During the year, this will be much higher and will depend on the overall cash flow position during the financial period.

Limits to Borrowing Activity

4.16 The Council is required to set limits on overall borrowing (net of investments). This controls borrowing and ensures that it does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and the next two financial years.

4.17 A short term deviation is allowed to allow some flexibility if a limited amount of borrowing was required to meet temporary shortfalls in cash flow. The estimated position is detailed in the following table.

Estimated Borrowing Compared to the CFR	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Gross Borrowing - HRA	58,700	58,680	58,660	58,640	58,620	58,600
Gross Borrowing - General Fund	133	133	133	133	133	133
Gross Borrowing - Total	58,833	58,813	58,793	58,773	58,753	58,733
Total CFR	71,070	70,808	70,558	70,320	70,096	69,884

4.18 The above table shows that as gross borrowing is likely to remain below the CFR, the Council will comply with this Prudential Indicator. The HRA borrowing contains the debt take-on of £57.4m, together with existing debt of £1.3m.

4.19 The debt on the General Fund relates to deposits held on account for Parish Councils and these are subject to repayment at short notice. The figures show the estimated year-end position and do not take into account any short-term cash deposits which could offset the CFR.

4.20 Besides the HRA debt take-on, the Council's overall financial plans do not at this stage rely on any new borrowing whether on a prudential or unsupported basis.

The Authorised Limit for External Debt

4.21 This represents a limit beyond which external debt is prohibited. It is the statutory limit determined under section 3(1) of the Local Government Act 2003 and includes the debt cap for HRA self-financing of £66.853m.

The Operational Boundary for External Debt

4.22 This represents the expected external debt during the course of the year, but it is not a limit. It is designed to aid the Chief Finance Officer manage treasury activity on a daily basis and acts as an early warning sign of any potential issues. It includes a provision for temporary borrowing of £5m. The Limit and Boundary are summarised below.

Debt Limits	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Authorised Limit	75,041	74,779	74,529	74,291	74,067	73,855
Operational Boundary	63,423	63,423	63,423	63,423	63,423	63,423

Affordability Indicators

4.23 These indicators aim to show the cost of borrowing and capital investment plans on the Council's finances, together with their impact on local taxpayers. Under the Prudential System, borrowing needs to be affordable and sustainable in the longer term.

Ratio of Financing Costs to Net Revenue Stream

4.24 This indicator shows the trend in the net cost of borrowing (allowing for investment income) against the net revenue stream, i.e. Council Tax for the General Fund and Rent Income for the HRA. This is shown in the following table.

Financing Ratios	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
General Fund						
Council Tax Income	£4,888,102	£4,977,915	£5,134,392	£5,340,989	£5,523,392	£5,676,599
Net Interest	-£5,605	-£25,403	-£31,414	-£52,850	-£66,681	-£102,156
Proportion	-0.11%	-0.51%	-0.61%	-0.99%	-1.21%	-1.80%
HRA						
Rent Income	10,145,893	10,975,240	11,701,350	11,859,510	12,249,910	12,596,080
Net Interest	£37,365	£1,654,814	£1,654,594	£1,647,724	£1,755,834	£1,874,954
Proportion	0.37%	15.08%	14.14%	13.89%	14.33%	14.89%

4.25 With no debt on the General Fund, the ratio is negative. The increase for the HRA shows the effect of the new debt under self-financing.

4.26 The ratio reflects the level of "gearing" - how much of the Council's turnover is tied up in borrowing costs. Although clearly, the proportion for the HRA has increased fairly significantly in cost terms, this is affordable within the Business Plan.

Impact of Capital Investment on the Council Tax and Housing Rents

4.27 This indicator then shows how much per year the costs of borrowing impact upon each household (at Band D council tax rate) in the District and for each council tenant (HRA).

Cost of Servicing Debt	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net Interest Received - Gen Fund	-£5,605	-£25,403	-£31,414	-£52,850	-£66,681	-£102,156
Estimated Band D Properties	31,855	32,194	32,493	32,793	33,094	33,394
Cost per Band D Property	-£0.18	-£0.79	-£0.97	-£1.61	-£2.01	-£3.06
Estimated Interest - HRA	£37,365	£1,654,814	£1,654,594	£1,647,724	£1,755,834	£1,874,954
Estimated Dwellings	3,046	3,043	3,039	3,035	3,031	3,026
Annual Cost per Dwelling	£12	£544	£544	£543	£579	£620

5.0 Financial Implications

5.1 As detailed in the report.

6.0 Corporate Implications

6.1. None directly

7.0 Community Implications

7.1 None directly

8.0 Background Papers

8.1 Treasury Management in Public Services and the Code of Practice (Cipfa Publication – November 2011)

8.2 Local Government Act 2003 (Part 1)

8.3 Localism Act 2011 – Part 7 Chapter 3

