Report of	Meeting	Date
Chief Executive	Governance Committee	12 September 2013

TREASURY STRATEGIES AND PRUDENTIAL INDICATORS 2013/14 TO 2015/16 MID TERM REVIEW

PURPOSE OF REPORT

1. To report on performance and compliance with Prudential Indicators in financial year 2013/14 to the end of August.

RECOMMENDATION(S)

2. That the report be noted.

3. That the Council should be recommended to increase the Operational Boundary for External Debt for 2013/14 to £7.285m

EXECUTIVE SUMMARY OF REPORT

4. The report takes into account all changes to revenue and capital budgets reported to Executive Cabinet during 2013/14. The most recent changes will be recommended to Council for approval on 17 September 2013.

5. Expenditure due to be financed by Prudential Borrowing totalling £0.192m was rephased from 2012/13 to 2013/14. Taking both years together, estimated financing by Prudential Borrowing has not increased, and may reduce if further expenditure is rephased to later years. PWLB interest rates have increased over the past six months, and are expected to continue to increase. Any increase in the cost of borrowing would need to be reflected in the revenue budget.

6. The Capital Financing Requirement (CFR) has been recalculated to reflect rephasing of borrowing from 2012/13 and the revised Minimum Revenue Provision (MRP) for 2013/14. Net borrowing – gross borrowing less surplus cash invested – is expected to be much lower than the CFR in 2013/14.

7. The Operational Boundary for External Debt needs to be increased to include other long-term liabilities and to match borrowing at the start of the year, which is higher than that estimated at year-end.

8. Current treasury activity figures are presented. These have been reflected in the revenue budget monitoring report being presented to Council on 17 September 2013.

9. The out-turn report for 2012/13 tracked the original Landsbanki (LBI) investment of £2.0m to the amount owing as at 31st March 2013 of £0.830m. With regard to the Council's Icelandic investments the Council has been approached, via Bevan Brittan (BB) (who represent 89 local authority creditors and 7 other priority creditors), regarding a possible sale of Landsbanki claims. At present, the possible sale remains an 'in principle' proposal. Should a formal sale process be progressed, a formal decision will need to be made as to whether the Council wishes to sell its LBI claim. Due to the nature of the proposed auction process it is expected that the timescales between (a) receiving a formal invitation, and (b) submitting an approved request to sell, will be very short. Therefore, the mechanics of obtaining the requisite approval will need to be arranged urgently at short notice.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

10. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

11. Special Council of 28 February 2013 approved the Prudential Indicators for 2013/14 to 2015/16; the Treasury Management Strategy and Treasury Indicators for 2013/14; the Annual Investment Strategy 2013/14; and the Annual Minimum Revenue Provision (MRP) Strategy 2013/14.

12. The Treasury Management Annual Report for 2012/13 was presented to Governance Committee of 27 June 2013. Changes to total capital expenditure in 2012/13, and the financing of it by borrowing, have an impact on Prudential Indicators in 2013/14.

13. This report also reflects rephasing of capital expenditure reported to Executive Cabinet on 20 June 2013; and capital programme and revenue budget monitoring information presented to Executive Cabinet on 15 August 2013. The most recent changes will be recommended to Council for approval on 17 September 2013.

14. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

PRUDENTIAL INDICATORS

<u>Capital Expenditure 2013/14</u>

15. The Prudential Indicator reported on 28 February 2013 took account of estimated capital expenditure and sources of financing from 2012/13 to 2015/16. The Capital Programme for 2013/14 has been updated to include expenditure rephased from 2012/13, as shown in the table below.

Table 1 - Capital Expenditure	2013/14 Estimate £'000	Rephased £'000	Other Changes £'000	2013/14 Revised £'000
Capital expenditure incurred directly by the Council	11,951	918	87	12,956
Less Capital resources				
Capital Receipts	360			360
Grants & Contributions	2,688	592	(217)	3,063
Revenue and Reserves	38	134	304	476
Unfinanced amount (affects CFR)	**8,865**	**192**	**0**	**9,057**

16. The unfinanced total represents the expenditure that would be financed by Prudential Borrowing, whether external or use of internal balances. Of the £9.057m, £6.650m is in respect of the Chorley East Health Centre. There are no contracts in place in respect of this project, so further rephasing of expenditure to later years is possible. The effect on the revenue budget of this project should be neutral, because the Council's capital financing costs (MRP and interest) should be covered by the rental income.

17. Though £0.192m expenditure due to be financed with Prudential Borrowing has been rephased from 2012/13, taking both years together there has been no increase in financing by borrowing.

18. The Council's treasury advisors Sector (now rebranded as "Capita Asset Services – Treasury Solutions") have provided the following interest rates forecast. Public Works Loan Board (PWLB) interest rates have risen over the past six months, and further increases are expected for this financial year and the next.

Table 2 - Interest Rate Forecast	Sep 2013 %	Dec 2013 %	Mar 2014 %	Jun 2014 %	Sep 2014 %	Dec 2014 %	Mar 2015 %
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5 yr PWLB	2.20	2.20	2.20	2.20	2.20	2.30	2.40
10 yr PWLB	3.30	3.30	3.30	3.30	3.30	3.40	3.50
25 yr PWLB	4.20	4.20	4.30	4.30	4.40	4.50	4.60
50 yr PWLB	4.30	4.30	4.40	4.40	4.50	4.60	4.70

Any increase in the cost of borrowing to finance capital expenditure would need to be reflected in the revenue budget.

Capital Financing Requirement (CFR) 2013/14

19. The CFR measures the indebtedness resulting from the Council's Capital Programme. It increases when the Council incurs unfinanced capital expenditure or leasing liabilities. The CFR is used to calculate the charge to the revenue account for debt repayment known as the Minimum Revenue Provision or MRP.

20. The CFR for the current year has been recalculated to take account of the rephasing of capital expenditure from 2012/13 to 2013/14. In addition, the CFR presented on 28 February 2013 did not reflect the approved use of revenue budget savings in 2012/13 to reduce debt. Debt reduction was achieved by using revenue resources to reduce unfinanced capital expenditure in 2012/13; and by setting aside savings voluntarily. The aim was to reduce the MRP chargeable to the revenue budget from 2013/14 onwards.

21. In my revenue budget monitoring report to Executive Cabinet of 15 August, I indicated that MRP for 2013/14 would be £0.036m less than budgeted. I recommended that this saving should be earmarked for further debt reduction, whether to be set aside voluntarily or to reduce unfinanced capital expenditure by applying it as revenue financing of capital. Specific use would depend on which option would be most beneficial to the revenue budget in subsequent years. The table below assumes that the sum would be set aside voluntarily, so that it is included in the MRP total for 2013/14.

Table 3 - Capital Financing Requirement (CFR)	**2013/14 Estimate £'000**	**Rephased £'000**	**Other Changes £'000**	**2013/14 Revised £'000**
Estimated CFR start of year	9,134	(192)	(471)	8,471
Reasons for change in estimated CFR				
Unfinanced Capital Expenditure	8,865	192		9,057
Annual Revenue Charge (MRP)	(356)	28	22	(306)
Estimated CFR end of year	**17,643**	**28**	**(449)**	**17,222**

The CFR and Borrowing 2013/14

22. The Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. This is in order to ensure that Councils borrow only for capital investment purposes. As at 31 March 2013, net borrowing was a negative figure well below the cumulative CFR. This Prudential Indicator for 2013/14 was reported to be £6.922m net borrowing, on the assumption that surplus cash balances invested would be depleted by 31 March 2014, and that external borrowing would be delayed until 2014/15. If expenditure on the Chorley East Health Centre and other projects is rephased to later years, it is likely that there would be surplus cash to invest up to the end of the year and that net borrowing would be lower than estimated.

Operational Boundary for External Debt 2013/14

23. The Operational Boundary for external debt should reflect the most likely, but not worst case, scenario consistent with the Council's approved budgets. Gross borrowing and other long-term liabilities should not exceed the Operational Boundary. The figure approved on 28 February 2013 was £6.922m, being the forecast gross borrowing as at 31 March 2014.

24. The Prudential Indicator omitted £0.013m long-term liabilities, and needs to equal the highest external debt figure for the year. As a consequence, the Operational Boundary should be increased to £7.285m, being the figure reported to Central Government in the Capital estimates Return for 2013/14.

Authorised Limit 2013/14

25. The Authorised Limit should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The figure approved for 2013/14 was £10.000m, and there is no reason to amend this at present.

Ratio of Financing Costs to the Revenue Stream 2013/14

26. The Ratio of Financing Costs to the Revenue Stream shows the percentage of the Council's income from Government grants and council tax that has been used to meet interest costs and debt repayment. The actual figure for 2013/14 will be presented in the Treasury Management Annual Report 2013/14 in June 2014.

Incremental Impact of Capital Investment Decisions 2013/14

27. The Incremental Impact of Capital Investment Decisions measures the cumulative impact of capital expenditure on the revenue budget. It is not possible to make a meaningful comparison against this indicator other than when it is restated in the annual Treasury Strategy.

TREASURY ACTIVITY

28. Investment activity up to the end of August 2013 is summarised in the following table.

Table 4 - Investment Activity	**Average Daily Investment £'000**	**Earnings to 30/08/13 £**	**Average Rate %**
Fixed Term Deposits	9,059	50,111	1.33
Call Accounts	2,206	6,826	0.74
Money Market Funds	411	692	0.40
Total excl. Icelandic investment	**11,676**	**57,629**	**1.19**

A full list of current investments is shown at Appendix A. The current list of Financial Institutions and Investment Criteria is attached as Appendix B.

29. The average interest earned of 1.19% exceeds the benchmark of 0.36% (being the average LIBID 7 day rate).

30. The following table compares the budget for interest payable and receivable against the latest projection reflected in the revenue budget monitoring report to 15 August Executive Cabinet.

Table 5 - Net Interest	Budget for year £'000	Forecast outturn £'000	Variance £'000
Interest Payable	163	163	0
Interest Receivable	(207)	(197)	10
Net Interest	**(44)**	**(34)**	**10**

Interest receivable assumes that £0.045m would be received in respect of the Icelandic investment. Further information about that investment is given in the following section.

ICELANDIC INVESTMENT

31. The Treasury Management out-turn report for 2012/13, presented on 27 June 2013, tracked the original investment of £2.0m to the amount owing as at 31st March 2013 of £0.830m. No further cash receipts have been received in 2013/14. With regard to the Council's Icelandic investments the Council has been approached, via Bevan Brittan (BB) (who represent 89 local authority creditors and 7 other priority creditors), regarding the possible sale of Landsbanki (LBI) claims. At present, the possible sale remains an 'in principle' proposal. Should a formal auction process be progressed, a formal decision will need to be made as to whether the Council wishes to sell its LBI claim. Due to the nature of the proposed auction process it is expected that the timescales between (a) receiving a formal invitation, and (b) submitting an approved request to sell, will be very short and indeed prior to the end of September 2013. Therefore, the mechanics of obtaining the requisite approval will need to be arranged urgently at short notice.

IMPLICATIONS OF REPORT

32. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

33. This report complies with statutory requirements. Statistical content is consistent with the assumptions in the approved capital and revenue budgets for 2013/14, including changes approved during the year.

COMMENTS OF THE MONITORING OFFICER

34. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	6 September 2013	Treasury Strategies & Prudential Indicators 2013-14-2015-16.docx