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**Report to:** Audit & Governance Committee **Date of Meeting:** 10 September 2014

**Subject:** Treasury and Capital activity – Outturn 2013/14.

**Report of:** Head of Corporate Finance & Information Services

**Wards Affected:** All

**Is this a Key Decision?** No

**Is it included in the Forward Plan?** No

**Exempt/Confidential** No

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### **Purpose/Summary**

To inform members of Prudential Indicators, and Treasury Management activities undertaken for 2013/14. The report also includes the Treasury Management position to July 2014.

### **Recommendation(s)**

Audit & Governance is asked to note the contents of this report.

### **How does the decision contribute to the Council's Corporate Objectives?**

	<b><u>Corporate Objective</u></b>	<b><u>Positive Impact</u></b>	<b><u>Neutral Impact</u></b>	<b><u>Negative Impact</u></b>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

### **Reasons for the Recommendation:**

To ensure that Audit & Governance Committee is fully appraised of activity undertaken against prudential indicators in 2013/14, and for the period to July 2014.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

There are no financial implications as a result of this report. The net underspending on the Capital Programme during 2013/14, will be carried forward into 2014/15 single capital pot.

**(B) Capital Costs**

None.

**Implications:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Legal</b>	The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities
<b>Human Resources</b>	None
<b>Equality</b>	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

**Impact on Service Delivery:**

None.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD 3142/14)

Legal Services (LD/2434/14) have been consulted and any comments have been incorporated into the report.

**Are there any other options available for consideration?**

None.

**Implementation Date for the Decision**

Immediately following the Committee Meeting.

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**Background Papers:**

None.

## **BACKGROUND:**

### **1. Introduction**

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures/limits/parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable. Original Prudential Indicators for 2013/14 were approved on 6 March 2013.
- 1.2. A requirement of the Prudential Code is the reporting to Audit & Governance Committee of the outturn position of Prudential Indicators following the end of financial year. In accordance with this requirement, this report outlines the 2013/14 outturn for the following Prudential Indicators:-
  - (i) Capital Expenditure (Sections 2);
  - (ii) Financing Costs/Net Revenue Stream (Section 3);
  - (iii) Capital Financing Requirement (Section 4);
  - (iv) Borrowing Limits (Section 5);
  - (v) Treasury Management Indicators (Section 6).
- 1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Audit & Governance of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2013/14 covering the following issues:
  - borrowing strategy and practice
  - the Council's current Debt Portfolio
  - compliance with Treasury Limits
  - compliance with Prudential Indicators
  - investment strategy and practice.
- 1.5. The results of treasury management activities in 2013/14 are also reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget.
- 1.6. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

## 2. **Prudential Indicator – Capital Expenditure**

- 2.1. The original estimate for 2013/14 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	<b>£'000</b>
<b>Estimate</b>	28.470
<b>Actual</b>	29.458

- 2.2 The Capital Programme shows an increase in expenditure of £0.988m when compared to the original estimate of £28.470m. This movement has been caused by slippage from 2012/13.
- 2.3 An analysis of spend in the year against revised estimate is at **Annex A**.

## 3. **Prudential Indicator – Financing Costs/Net Revenue Stream**

- 3.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.
- 3.2. The actual percentage achieved against estimate is as follows:

<b>Estimate</b>	6.4%
<b>Actual</b>	5.3%

- 3.3 The reduction has been caused by lower than estimated borrowing costs, as a result of not borrowing for the Capital Programme (see paragraph 5.4.3 below), and higher than estimated return on investments.

## 4. **Prudential Indicator – Capital Financing Requirement**

- 4.1. The Capital Financing Requirement indicator reflects the Authority's underlying need to borrow for capital purposes. The Council is currently internally borrowed which is temporary and at some point the decision will be made to borrow. This is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2013/14. The original and the actual Capital Financing Requirement at 31/03/14 are detailed below:

	<b>£'000</b>
<b>Estimate</b>	221.000
<b>Actual</b>	208.314

- 4.2. The level of actual Total Capital Financing Requirement as at 31 March 2014 is lower than the revised estimate due to the reduced borrowing requirement for the capital programme.

- 4.3. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

*"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".*

- 4.4. In the report to Cabinet in March 2013, it was stated that the Authority would comply with this requirement in 2013/14. During the financial year, net external borrowing did not exceed the total of the Capital Financing Requirement.

## 5. **Prudential Indicator – Borrowing Limits**

- 5.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the authority, both capital and revenue, and not simply those arising from capital spending. During 2013/14, the Council managed its Treasury position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and established an Operational Boundary and Authorised Limit to manage the level of external debt. These items are described below.

### 5.2. **The Operational Boundary**

- 5.2.1. The Operational Boundary sets a limit on the total amount of long term borrowing that the Council can enter into. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

- 5.2.2. The estimate and actual outturn for 2013/14 are presented below:

	<b>£'000</b>
<b>Estimate</b>	185.500
<b>Actual</b>	144.161

- 5.2.3 The actual borrowing is lower than the revised estimate, reflecting the internally borrowed position of the Council, with the projected £14.3m of borrowing budgeted for 2013/14 not being taken, and £14.3m of borrowing not being undertaken in 2012/13. The estimate also assumed that £7.2m of loans repaid in March 2013 would be replaced, and £2.7m of loans repaid in September 2013 but they were not replaced due to internal borrowing.

### 5.3. **The Authorised Limit**

- 5.3.1. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council enters into. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements.

5.2.3. The estimate and actual outturn for 2013/14 are presented below:

	<b>£'000</b>
<b>Estimate</b>	200.500
<b>Actual</b>	144.161

#### 5.4. **Borrowing Strategy and Practice**

5.4.1 In 2013/14 repayments of £0.140m were made to The Public Works Loan Board (PWLB) in respect of the repayment of the principal element of annuity loans.

5.4.2 The Council's external debt activity in the year is summarised in the following table:

		£'000
	Opening PWLB Debt 01/04/2013	123.291
Less	Repayment Principal Loans	(0.140)
Add	New borrowing	Nil
	<b>Closing PWLB Debt 31/03/2014</b>	<b>123.151</b>

5.4.3 It can be noted that the policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing or replacing maturing loans, continues. Under present economic conditions, it is considered prudent not to borrow for capital purposes. This provides a financially beneficial position, in revenue terms, for the Council. As the economy improves and interest rates increase, this strategy will need to be reviewed, with external borrowing re-starting as interest rates allow. Our new treasury management advisors, SECTOR, will provide support to the Council in determining the most appropriate timing for any new borrowing.

#### 5.5. **Current External Debt Portfolio**

The Council's current debt portfolio, taking account of the transactions detailed in paragraph 5.4, can be summarised as follows:

DEBT PORTFOLIO		
	<u>2012/13</u>	<u>2013/14</u>
Average Interest Rate	4.51%	4.50%
Payable on PWLB Debt in Year	4.51%	4.50%
<u>Debt Outstanding</u>	<b><u>31 March 2013</u></b>	<b><u>31 March 2014</u></b>
	<u>£'000</u>	<u>£'000</u>
PWLB	123.291	123.151
Finance Leases	17.881	15.760
Merseyside Residuary Body	6.134	5.250

5.5.1 The movement in debt reflects the financing decisions taken in paragraph 5.4.3.

5.5.2 The level of the Council's actual external debt has also been monitored throughout the financial year and for information had remained within both of the Prudential Indicators set.

## 6 **Debt Maturity Profile**

6.1 This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate.

Fixed Rate Debt Maturity	Upper Limit %	Lower Limit %	Actual 31/03/2014 %
Under 12 months	35	0	2.15
12 months and within 24 months	40	0	8.39
24 months and within 5 years	40	0	8.12
5 years and within 10 years	40	0	19.56
10 years and above	90	25	61.78

6.2 As can be seen our debt profile highlights that most of our debt is due to mature in 10 years and above, reflecting the internal borrowing position of the Council, as no new borrowing has been undertaken in recent years.

## 7. **Compliance with Treasury Limits**

7.1 The following Treasury Limits were approved by Council during the 2013/14 Budget Setting process:

Treasury Limits 2013/14	Limit	Actual
Authorised Borrowing Limit	£200.5m	£144.161m
Short Term Borrowing Limit	£15.0m	£0.0m
Proportion of variable interest rate External Borrowing	15%	Nil

7.2.1 During the financial year the Council operated within these limits.

## 8. Interest rate exposure

8.1. The following Prudential Indicators were approved for the 2013/14 financial year:

### i) **Interest Rate Exposure Indicators**

a) an upper limit of debt outstanding less investments held at fixed interest rates of 340% and a lower limit of 120% of the value of total debt outstanding less total investments;

**ACTUAL AT 31/03/2014 -FIXED INTEREST RATE                      148%**

b) an upper limit of debt outstanding less investments held at variable interest rates of -20% and a lower limit of -240% of the value of total debt outstanding less total investments.

**ACTUAL AT 31/03/2014 - VARIABLE INTEREST RATE    -48%**

Hence all of the above are within the limit set.

### ii) **Non Specified Investment Indicator**

An upper limit on the value of non-specified investments of 40% of total investments. Non specified investments are defined as over 2 years but less than 5 years;

**ACTUAL AT 31/03/2014 – None.**

Once again this is within the limit set.

## 9. Investment Strategy and Practice

9.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

### i) **Externally Managed Investments**

No externally managed funds are held.

### ii) **Internally Managed Investments**

The Council's available funds averaged £74.829m and were managed internally with advice from our Treasury Consultants.

In 2013/14 a return of 0.58% was achieved. This is more than the benchmark 7 day LIBID figure of 0.35% and is considered to be an acceptable return. The key objective when investing funds is to firstly to ensure security, then liquidity, and then yield.



9.2. The level of the Council’s investments is summarised in the following table:

<b><u>Investments</u></b>	<b><u>31 March 2013</u></b>	<b><u>31 March 2014</u></b>
	£m	£m
Total Investment of Cash Balances	40.18	56.61

**ANNEX A**

<b><u>Committee</u></b>	<b><u>Revised</u></b>			
	<b><u>Estimate</u></b>	<b><u>Actual</u></b>	<b><u>Rephasing</u></b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Corporate Services	61	21	40.00	65.57%
Built Environment				
Economy & Tourism	3,351	2,220	1,131.00	33.75%
Environmental	837	753	84.00	10.04%
Investment Programme & Infrastructure - Admin Bldgs & Other Props	789	245	544.00	68.95%
Investment Programme & Infrastructure - Transport	9,347	6,734	2,613.00	27.96%
Investment Programme & Infrastructure - Housing Services	5,026	4,650	376.00	7.48%
Older People			-	
Health & Wellbeing	2,270	2,359	89.00	-3.92%
Vulnerable People	64	65	- 1.00	-1.56%
Street Scene	4,940	5,647	707.00	-14.31%
Young People & Families	7,769	5,759	2,010.00	25.87%
Capitalisation - Maintenance Projects	1,000	1,005	- 5.00	-0.50%
<b>Total Service Based Capital Expenditure</b>	<b>35,454.00</b>	<b>29,458.00</b>	<b>5,996.00</b>	<b>16.91%</b>

