East Lothian Council

REPORT TO:	East Lothian Council
MEETING DATE:	26 February 2013
BY:	Executive Director (Support Services)
SUBJECT:	Treasury Management Strategy 2013/14 to 2015/16

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1 PURPOSE

1.1 To seek the approval of the Council of the Treasury Management and Investment Strategies for 2013/14 to 2015/16.

2 RECOMMENDATIONS

2.1 The Council is recommended to :

i. Note the Treasury Management Strategy summary provided in sections 3.4 - 3.18.

ii. Note the Investment Strategy summary provided in sections 3.19 – 3.22.

iii. Approve the Authorised Limits for external debt as detailed in section 3.13.

iv. Approve Operational Boundaries for external debt as detailed in section 3.15.

v. Approve the delegation of authority to the Head of Council Resources to effect movement between external borrowing and other long-term liabilities as detailed in section 3.16.

vi. Approve the detailed Treasury Management Strategy Statement which has been lodged in the Members' Library (Ref: 34/13, February 2013 Bulletin and made available to Members in advance of this meeting.

3 BACKGROUND

3.1 It is a statutory requirement under Section 93 of the Local Government Finance Act 1992, that the Council produces a balanced budget. In particular, a local authority must calculate its budget for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- Any increases in running costs from new capital projects

and are restricted to a level that is affordable within the projected income of the Council for the foreseeable future.

3.2 The Treasury Management Code of Practice, updated by CIPFA in 2011, requires the Council to approve a Treasury Management Strategy and an Investment Strategy in advance of each financial year:

3.3 A detailed document covering both the Treasury Management and Investment strategies for 2013/14 to 2015/16 has been placed in the Members' Library. This report outlines the key points arising from these strategies. The figures used are consistent with those used in setting both Council Tax and HRA rent levels on 12 February 2013.

TREASURY MANAGEMENT STRATEGY

3.4 Actual capital expenditure incurred in 2011/12 and the estimates of total gross capital expenditure to be incurred for 2012/13 and future years are detailed below in Table 1:

Table 1: Capital Expenditure

	2011/12 £'000 actual	2012/13 £'000 estimate	2013/14 £'000 estimate	2014/15 £'000 estimate	2015/16 £'000 estimate
General Services	38,265	31,213	28,446	20,525	23,669
HRA	33,231	29,104	25,630	20,904	21,007
TOTAL	**71,496**	**60,317**	**54,076**	**41,429**	**44,676**

3.5 Not all of this spending will be funded by borrowing. Table 2 below details the actual and planned capital expenditure over the period alongside the sources of funding.

Table 2: Net Financing Need for the Year					
	2011/12 £'000 actual	2012/13 £'000 estimate	2013/14 £'000 estimate	2014/15 £'000 estimate	2015/16 £'000 estimate
General Services Gross	38,265	31,213	28,446	20,525	23,669
HRA Gross Capital Spend	33,231	29,104	25,630	20,904	21,007
Sub-total	**71,496**	**60,317**	**54,076**	**41,429**	**44,676**
Financed by;					
Capital grants	(14,447)	(10,362)	(12,578)	(12,795)	(8,347)
Capital receipts/contributions	(1,520)	(6,476)	(5,301)	(5,382)	(4,778)
Capital reserves	-	-	-	-	-
Revenue Contributions	(4,664)	-	-	-	-
Sub-total	**(20,631)**	**(16,838)**	**(17,879)**	**(18,177)**	**(13,125)**
Net Financing Need for the Year	**50,865**	**43,479**	**36,197**	**23,252**	**31,551**

3.6 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2011/12 are shown in Table 3:

Table 3: Ratio of financing costs to revenue stream					
	2011/12 % actual	2012/13 % estimate	2013/14 % estimate	2014/15 % estimate	2015/16 % estimate
General Services	7.02%	7.79%	8.84%	9.22%	9.35%
HRA	23.75%	28.55%	32.05%	34.37%	36.46%

3.7 The gradual increase in the General Services ratio mainly reflects a combination of recent high levels of capital investment and the anticipated standstill in corporate income. The increase in the HRA ratio reflects the large planned investment in new affordable housing, which is mainly financed through borrowing. This borrowing has to be repaid with interest and this leads to increased financing costs charged against the HRA.

3.8 The Capital Financing Requirement (CFR) measures the Council’s underlying need to borrow for a capital purpose. The Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Treasury Management in the Public Services. The Council has at any point in time a number of cash flows both positive and negative. In day-to-day cash management, no distinction is made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. However, other than to manage short-term cash flows, the Council is not allowed to borrow for revenue purposes.

3.9 Estimates of the end of year capital financing requirement (CFR) for the Council for the current and future years, and the actual CFR at 31 March 2012 are detailed in Table 4 below;

Table 4: Capital Financing Requirement (CFR)

	2011/12 £'000 actual	2012/13 £'000 estimate	2013/14 £'000 estimate	2014/15 £'000 estimate	2015/16 £'000 estimate
Total CFR at start of year	348,170	388,939	420,952	444,409	453,772
Movement in CFR	40,769	32,013	23,457	9,363	17,066
Total CFR at end of the year	**388,939**	**420,952**	**444,409**	**453,772**	**470,839**
Movement in CFR represented by					
Net Financing Need for the year (above)	50,865	43,479	36,197	23,252	31,551
Less: Scheduled Debt Amortisation	(10,096)	(11,466)	(12,739)	(13,889)	(14,484)
Movement in CFR	**40,769**	**32,013**	**23,457**	**9,363**	**17,066**

3.10 The importance of the CFR lies in the way it measures the need to borrow for a capital purpose excluding the effect of revenue cash flows.

3.11 The key indicator of prudence is that external borrowing should not exceed the CFR for the preceding year plus additional CFR in the current and two following years. At the close of the 2011/12 financial year, the Council was well within this indicator, as the relevant CFR was £388.939 million and external borrowing was £334.249 million.

3.12 The Council's treasury portfolio position at 31 March 2012, with forward projections are summarised in table 5 below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR) highlighting any over or under borrowing.

Table 5: Actual Debt and the Capital Financing Requirement (CFR)	2011/12 £'000 actual	2012/13 £'000 estimate	2013/14 £'000 estimate	2014/15 £'000 estimate	2015/16 £'000 estimate
Total External debt at start of year	249,191	334,249	357,434	390,667	418,159
Expected/Actual change in debt	37,652	24,502	34,559	28,784	21,514
Other long term liabilities (OLTL)	48,686	47,406	46,089	44,763	43,470
Expected/Actual change OLTL	(1,280)	(1,317)	(1,326)	(1,293)	(1,186)
Actual gross debt at 31 March	**334,249**	**357,434**	**390,667**	**418,159**	**438,486**
The Capital Financing Requirement	**388,939**	**420,952**	**444,409**	**453,772**	**470,839**
(Under)/Over borrowing	**(54,690)**	**(63,518)**	**(53,742)**	**(35,614)**	**(32,352)**

3.13 The Council is recommended to approve the following Authorised Limits for its gross external debt for the next three years. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Table 6: Authorised Limit for External Debt	2012/13 £'000 estimate	2013/14 £'000 estimate	2014/15 £'000 estimate	2015/16 £'000 estimate
Borrowing	402,000	427,000	438,000	456,000
Other long term liabilities	59,000	57,000	56,000	55,000
Total	**461,000**	**484,000**	**494,000**	**511,000**

3.14 These authorised limits are consistent with the Council's current commitments, existing plans and the budget proposals for capital expenditure and financing, and also with the approved treasury management policy. The limits are based on the estimate of the most likely, prudent but not worst-case scenario with, in addition, sufficient headroom over and above this to allow for the operational management of unusual cash flows, such as debt restructuring.

3.15 The Council is also asked to approve in table 7 the Operational Boundaries for gross external debt. These are based on the Authorised Limits but excluding headroom.

Table 7: Operational Boundary for External Debt				
	2012/13	**2013/14**	**2014/15**	**2015/16**
	£'000	**£'000**	**£'000**	**£'000**
	estimate	**estimate**	**estimate**	**estimate**
Borrowing	372,266	397,003	407,683	426,076
Other long term liabilities	48,686	47,406	46,089	44,763
Total	**420,952**	**444,409**	**453,772**	**470,839**

3.16 The Council is asked to delegate authority to the Head of Council Resources to effect movement between borrowing and long-term liabilities within the total authorised limits and operational boundaries approved. Any such movement would be reported to Cabinet via the Members' Library as part of Treasury Management update reports.

3.17 Within the limits set by the indicators above, the Council will make capital investment decisions in accordance with the following fundamental principles of the Prudential Code:

- Service objectives e.g. achieving the Council Plan objectives
- Stewardship of assets e.g. asset management planning
- Affordability e.g. implications for Council Tax
- Value for money e.g. option appraisal
- Prudence and sustainability e.g. implications for external borrowing
- Practicality e.g. is the investment proposal practical given other competing pressures on the service involved

3.18 A key measure of affordability is the incremental impact of capital investment decisions on the Council Tax and Council House rents. The impacts of the expenditure plans are shown below in Table 8:

Table 8: Incremental impact of capital investment decisions			
	2013/14	**2014/15**	**2015/16**
	£ p	**£ p**	**£ p**
	estimate	**estimate**	**estimate**
Increase in Council Tax (band D) per annum	£ 36.01	£ 20.91	£ 7.08
Increase in average housing rent per week	£ 2.75	£ 2.22	£ 2.14

INVESTMENT STRATEGY

3.19 The Council's Investment Strategy for 2013/16 has been prepared in accordance with the Local Government Investments (Scotland) Regulations 2010 and the CIPFA Treasury Management code

3.20 The Investment Strategy details the approach which the Council will take to minimise the risk to investments and lists the investments which the Council will be permitted to use. A related risk assessment including associated controls and limits is provided within detailed strategy statement.

3.21 Common Good and Charitable Trust funds are managed on behalf of the Council by an external investment management firm. The strategy details the Council's policy on the investment of these funds.

3.22 The indicator below sets a limit on the total level of investments held for a period longer than 364 days:

Maximum principal sums invested > 364 days			
£m	**2013/14**	**2014/15**	**2015/16**
Principal sums invested > 364 days	£m 30	£m 30	£m 30

4 POLICY IMPLICATIONS

4.1 Approval of the detailed Treasury Management Statement will provide the policy framework within which the Council's treasury activities will be managed.

4.2 Implementation of Council policy will require capital expenditure. The policy effect of a proposed capital expenditure will be assessed as part of the project appraisal.

4.3 The limited resources available form an important constraint on the development of policy, which requires to be managed through the development of a sustainable Council Plan associated with a Corporate Asset Management Plan.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the wellbeing of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial – these strategies are interwoven with the revenue and capital budgets. The expenditure and debt limits are implicit within the revenue budgets approved by the Council on 12 February 2013.

6.2 Personnel - none directly from this report although there may be implications arising from capital investment decisions.

6.3 Other – capital investment choices made have a major impact on the property, equipment and IT resources available for the delivery of services.

7 BACKGROUND PAPERS

7.1 CIPFA (2011) – “Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes”

7.2 CIPFA (2011) – “The Prudential Code for Capital Finance in Local Authorities”

7.3 The Local Government (Scotland) Investment Regulations 2010

7.4 Capital Investment & Treasury Management Strategy 2013/14 to 2015/16 – lodged in the Members’ Library Service, 19 February 2013 (Ref: 34/13, February 2013 Bulletin)

7.5 Council Meeting of 12 February 2013 – all papers

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