FINANCE, AUDIT AND PERFORMANCE SELECT COMMITTEE – JUNE 3RD 2013

Hinckley & Bosworth Borough Council
A Borough to be proud of

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

RE: PRUDENTIAL CODE AND TREASURY MANAGEMENT ANNUAL REPORT 2012/13

WARDS AFFECTED:ALL WARDS

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1. **PURPOSE OF REPORT**

1.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2012/13 and the actual Prudential Indicators for 2012/13.

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Code), requires authorities to produce an annual report describing the activity compared to the strategy

The Council is required to comply with the code through Regulations issued under the Local Government Act 2003.

2. **RECOMMENDATION**

2.1 Note the reported is noted

3. **BACKGROUND TO THE REPORT**

3.1 Introduction

This report summarises:

- the economic background in 2012/13
- the capital activity during the year
- what resources the Council applied to pay for this activity;
- the impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- the reporting of the required prudential indicators;
- overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- debt activity; and investment activity.

3.2 Economic Background

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition

Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

3.3 The Council's Capital Expenditure and Financing 2012/13

The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£'000	2011/12 Actual	2012/13 Estimate	2012/13 Actual
Non-HRA capital expenditure	2,889	4,501	4,333
HRA capital expenditure	2,425	2,610	2,785
HRA settlement	67,652	0	0
Total capital expenditure	**73,026**	**7,111**	**7,118**
Resourced by:			
Capital receipts	426	2,062	1,341
Capital grants	317	744	1,431
Revenue	3,000	889	3,061
Unfinanced capital expenditure	**69,283**	**1,312**	**1,285**

3.4 The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. It represents 2012/13 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.5 Capital Financing Requirement

Whilst under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy, the Council is required to make an annual revenue charge to reduce the CFR – effectively a repayment of the Non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR.

The Council's 2012/13 MRP Policy (as required by CLG Guidance) was approved on 21st February 2013.

3.6 The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR (£'000)	31 March 2012 Actual	31 March 2013 Original Indicator	31 March 2013 Actual
Opening balance	16,659	85,193	85,193
Add unfinanced capital expenditure (as above)	69,283	1,312	1285
Less MRP	659	770	-770
Closing balance	**11,863**	**85,735**	**85,708**

3.7 <u>Overall Treasury Position at 31 March 2013</u>

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Deputy Chief Executive (Corporate Direction) can manage the Council's actual borrowing position by either:

- borrowing to the CFR; or
- choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under-borrowing); or
- borrowing for future increases in the CFR (borrowing in advance of need).

The figures in this report are based on the principal amounts borrowed and invested and so may differ form those in the final accounts by items such as accrued interest.

During 2012/13 the Deputy Chief Executive (Corporate Direction) managed the debt position to ensure that sufficient cash liquidity was available and to minimise external interest payments, and the treasury position at the 31 March 2013 compared with the previous year was:

Actual borrowing position	31 March 2012		31 March 2013	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£4.3m	3.93%	£3.3m	3.97%
Variable Interest Rate Debt	£0m	n/a	£0m	n/a
Total Debt	**£4.3m**	**3.93%**	**£3.3m**	**3.97%**
Under borrowed	**£5.374m**		**£7.118m**	
Investment position	**31 March 2012**		**31 March 2013**	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Fixed Interest Investments	£2..5m	5.4%	£4.15m	1.49%
Variable Interest Investments	£0m	n/a	£0m	n/a
Total Investments	**£2.5m**	**5.4%**	**£4.15m**	**1.49%**

Net borrowing position	**-£1.8m**		**£0.85m**	

3.8 <u>Prudential Indicators and Compliance Issues</u>

Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

Net Borrowing and the CFR - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR. The table below highlights the Council's net borrowing position against the CFR.

	31 March 2012 Actual	31 March 2012 Original Indicator	31 March 2013 Actual
Net borrowing position	**-£1.8m**	**0.85m**	**£0.85m**
CFR	**£85m**	**£86m**	**£86m**

The Authorised Limit - The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The table below shows this limit was not breached.

Actual financing costs as a proportion of net revenue stream - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The actual financing percentage was slightly higher then budgeted due to additional revenue savings in the year. Additional revenue savings reduce the base costs i.e increase the net revenue stream that financing costs are compared to hence the increase in the financing cost as a proportion of the net revenue stream.

	2012/13
Authorised Limit	**£86.413m**
Operational Boundary	**£86.013m**
Actual CFR	**£85.735m**
Budgeted Financing costs as a proportion of net revenue stream	**5.69%**
Actual Financing costs as a proportion of net revenue stream	**7.25%**

3.9 <u>The Strategy Agreed for 2012/13</u>

The strategy provided for 2012/13 expected

Investments to

- Maintain security i.e. only invest in sound institutions for short periods
- Ensure liquidity is available
- Earn a reasonable rate of interest given constraints economic constraints

Borrowing

- To maintain long term liquidity
- To minimise additional interest charge

3.11 Actual debt management activity during 2012/13

Borrowing – No new loans were drawn to fund the net capital spend and naturally maturing debt. One loan was repaid the details are:-

Lender	Principal	Type	Interest Rate	Maturity	Average for 2012/13
PWLB	£1m	Fixed interest rate	1.9%	3 years	**1.9%**

Summary of Debt Transactions –The overall position of the debt activity resulted in virtually balanced position. The actual cost was £165,688 compared to a budget of £167,567.

3.12 Investment Position during 2012/13

Investment Policy – The Council's investment policy is governed by CLG Guidance, which has been implemented in the annual investment strategy approved by Council on 21st February 2013. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – The Council's longer term cash balances comprise primarily revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and meet the expectations of the budget:

Balance Sheet Resources (£m)	31/3/12	31/3/13 est
Balances	**3.992**	**3.574**
Reserves	**4.432**	**8.894**
Unapplied Grants	**0.949**	**2.950**
Usable capital receipts	**1.050**	**1.585**
Total	**10.623**	**17.003**

Investments Held by The Council - The Council maintained an average balance of £13.233m of internally managed funds. The internally managed funds received an average return of 0.4644%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.3944%.

The Economic Background for 2012/13 (see Section 6) set out the continuing difficulties in economic conditions and the resulting high levels of counter party risks resulted in a more defensive position and slightly reduced returns compared to the budget. Members of Finance and Audit Select Committee receive and quarterly update on investments and borrowing.

Regulatory Framework, Risk and Performance In adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4. FINANCIAL IMPLICATIONS (IB)

There are none arising directly from this report

5. LEGAL IMPLICATIONS (AB)

Contained in the body of the report.

6. CORPORATE PLAN IMPLICATIONS

This report contributes to all aims in the Corporate Plan

7. CONSULTATION

None

8. RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
None		

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

There are none arising directly from this report

10. CORPORATE IMPLICATIONS

By submitting this report, the report author has taken the following into account: [if you require assistance in assessing these implications, please contact the person noted in parenthesis beside the item]

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background papers: Authority Financials ledger prints, Outturn reports

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