# East Devon District Council Treasury Management Strategy 2013/14
# &
# Prudential Indicators

# 1. Introduction

1.1 Background

The Council operates its treasury management function with reference to the Chartered Institute of Public Finance & Accounting Guidance laid out in the Code of Practice for Treasury Management in Public Services (CIPFA Code) and the department for Communities & Local Government (CLG) guidance on Local Government Investments.

The two main functions of treasury management are:

- Ensuring the Council’s cash flow is planned and that cash is available when needed.
- Longer term cash flow planning to ensure the Council can meet its capital spending plans. This will include arranging long or short term loans or using longer term cash flow surpluses.

CIPFA defines treasury management as:

*“The management of the local authority’s investments and 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.”*

1.2 Reporting Requirements

Under the CIPFA Code and CLG Guidance the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actual

**Treasury Management Strategy** (this report) - The first, and most important report covers:

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an investment strategy (the parameters on how investments are to be managed)
- a borrowing strategy, including prudential indicator limits on borrowing

**A mid year treasury management report** – This will update members with a detailed look at the performance of investments and borrowing against budget and benchmarks.

**An annual treasury report** – This provides details of the annual performance of investments against budgets and benchmarks. Also a included is an update and review of our borrowing position.

In addition to the above reports, Cabinet will be provided with an overview of treasury return against budget and prediction of likely outturn/year end variance as part of the monthly financial monitoring reports.

1.3 Treasury Advisors

The Council uses Sector as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2. Annual Investment Strategy

2.1 The Council's Overriding Investment policy objective is to prudently manage the Council's funds, ensuring that risks are minimised whilst maximising returns. The Council's investment priorities are:

- Security of the invested capital;
- Liquidity of the invested capital;
- Yield, which is in line with security and liquidity.

In that order.

In accordance with the above objective and in order to minimise the risk to investments, the Council clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list.

The creditworthiness methodology used to create the counterparty list takes account of the ratings, watches and outlooks published by the three ratings agencies of Fitch, Moody's and Standard & Poors.

The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and therefore other sources of information will be used including:

- Financial Press Articles (on economy, banking sector, individual institutions ect...)
- Share price
- Other information pertaining to the banking sector
- Support - this is the perceived support an institution will get from the government in the institutions county of origin based on News, articles and market sentiment
- Annual accounts of Building Societies.

A full review of the counterparty list is carried out monthly. In addition, potential counterparty ratings are monitored on a real time basis with Sector notifing officers electronically as the agencies publish modifications.

The intention of the strategy is to provide security of investment and minimisation of risk.

2.2 The Council's creditworthiness criteria is laid out in the table below

| Organisation | Criteria | Max Amount |
|---|---|---|
| **External (Long Term) Investment Fund** | | |
| Deposit with Banks and Building Societies | Minimum F1, A-1 or P-1 short term backed up by AAA, AA or AA- long term credit rating | 20% of Fund |
| Deposit with Banks and Building Societies | Minimum F1, A1 or P1 short term backed up by A long term credit rating | 10% of Fund |
| Bonds issued by multilateral development banks (MLDBs) | AAA or those institutions guaranteed by the UK government | 20% of Fund |
| UK Government Bonds/Gilts | | No limit |
| Investment schemes (e.g. bond funds) | AAA long-term rating backed up with lowest volatility rating (V1/S1) | 60%of External Fund total |
| **Cash Flow/Internal Investments (maximum duration 6 months)** | | |
| Deposit Building Societies | Top 20 by Total Assets with over £5 Billion in total assets | £3 Million |
| Deposit Building Societies | Top 20 by Total Assets with over £1 Billion in total assets | £2 Million |
| Deposit with Banks | Minimum F1, A1 or P1 short term backed up by A long term credit rating | £2 Million |
| Money Market Funds | AAAmmf long-term rating | £2 Million |
| UK Local, Police & Fire Authorities | | £2 Million |

2.3 The Council will not invest in subsidiaries that do not have a credit rating in their own right and a separate FSA licence from its parent.

In the event of a downgrade resulting in a counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

Any changes to ratings that put the counterparty below the rating criteria whilst they hold a deposit will be brought to the attention of the Head of Finance and the Portfolio Holder for Finance immediately, with an appropriate response decided on a case-by-case basis.

2.4 Specified Investments are required to be in Sterling and have a maximum maturity of 1 year and be of **'high credit quality'**.

The definition of **'high credit quality'** is set out below:

- Investments in institutions with a credit rating of at least A/F1, including investments in the European Development Banks, to provide more security the capital invested per institution is limited depending on their credit ratings as follows:

  AA-/F1+ 20% of value of external fund

  A/F1 10% of the value of external fund

- Investments in collective investment schemes structured as Open Ended Investment Companies (OEIC's) with a long term rating of AAAmmf for Constant Net Asset Value (CNAV) funds and AAA V1/S1 for Variable Net Asset Values (VNAV).

- Internal Investments less than 6 months, up to agreed limits, in Top 20 UK Building Society's with an asset basis of over £1 Billion.

All investments over 1 year in duration and not meeting the definition of High Credit Quality listed above are classified as Non Specified Investments

Please see Appendix A for a copy of the Council's current counterparty list.

2.5 As a result of a Tender Exercise in 2012, The Council Invests its Long Term 'External' investment funds in the following two OEIC's:

Cash Plus Fund – Royal London Asset Management (RLAM)
Sterling Liquidity Fund – Payden & Rygel

We will have 50% of our external fund balance invested in each of these funds, though this could be varied by 10% depending on performance.

2.5 Economic Forecast for 2013/14

Sector our treasury advisors have provided the following forecast for the economy in 2013/14.

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*Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:*

- *the potential for the Eurozone to withdraw support for Greece, causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;*
- *inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;*
- *the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;*
- *the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;*
- *the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;*
- *stimulus packages failing to stimulate growth;*
- *elections due in Germany in 2013;*
- *potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.*
- *the potential for action to curtail the Iranian nuclear programme*
- *the situation in Syria deteriorating and impacting other countries in the Middle East*

*The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.*

*Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.*

*Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -*

- *UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields*

- *Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held*

- *Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone*

- *Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth*

- *The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's AAA rating at the start of 2013).*

Included as Appendix B is a copy of their interest rate forecast.

## 3. Borrowing Requirement

3.1 General Fund

As at 31 December 2012 the Council has outstanding long term borrowings of £522,000 for the recycling & refuse capital scheme.

The three year capital plan shows further planned borrowing of £770,000 in 2013/14, for the development & redevelopment of industrial sites in Seaton.

The final decision whether to borrow to fund the capital project will be taken towards the end of 2013/14

3.2 Housing Revenue Account (HRA)

As at 31 December 2012 the HRA has 25 PWLB Loans outstanding totalling just over £85 million, 24 of these are maturity loans varying in duration from 3-26 years taken out under the Governments Self Financing regime. The 25th loan is an Annuity Loan (repaying principle each year) which was taken out in March 2011 for 17 New Build Properties.

There are currently no plans for additional borrowing in 2013/14.

3.3 Debt Restructuring

There are currently no plans to restructure the Council's debt portfolio; however this will be kept under review as market conditions change.

3.4 As part of the CIPFA code for Treasury Management it is recommended that the Cabinet is informed of the anticipated borrowing limits required for the forthcoming financial year. These limits are included in the Prudential Indicators appended to the 2013/14 budget report on the agenda.

In addition to loans mentioned earlier, the Council will still need to make use of short term borrowing to meet day to day cash flow shortfalls. The limits on the level of borrowings are stated below:

**Operational boundary for external debt** – estimate of the prudent (most likely) level of external debt, taken from the authorities' estimate of its capital financing and cash flow requirements.

| **Table 8 Operational Boundary for External debt (Estimated)** | | | | | |
|---|---|---|---|---|---|
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Borrowing - General Fund | 2,548 | 5,496 | 6,211 | 6,586 | 7,007 |
| Other LTL's* - General Fund | 752 | 705 | 669 | 483 | 435 |
| **General Fund Total** | **3,300** | **6,200** | **6,881** | **7,069** | **7,442** |
| Borrowing - HRA | 85,017 | 85,012 | 85,007 | 84,427 | 83,398 |
| Other LTL's* - HRA | 0 | 0 | 0 | 0 | 0 |
| **HRA Total** | **85,017** | **85,012** | **85,007** | **84,427** | **83,398** |
| **Overall Total** | **88,317** | **91,212** | **91,887** | **91,496** | **90,840** |

*****LTL's – Long Term Liabilities, e.g. Finance lease costs.

**Authorised limit for external debt** – the operational boundary plus headroom to provide for any unusual cash flows.

| **Table 7 Authorised Limit for External debt (Estimated)** | | | | | |
|---|---|---|---|---|---|
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Borrowing - General Fund | 2,548 | 8,496 | 9,211 | 9,586 | 10,007 |
| Other LTL's - General Fund | 752 | 705 | 669 | 483 | 435 |
| **General Fund Total** | **3,300** | **9,200** | **9,881** | **10,069** | **10,442** |
| Borrowing - HRA | 85,017 | 87,844 | 87,844 | 87,844 | 87,844 |
| Other LTL's - HRA | 0 | 0 | 0 | 0 | 0 |
| **HRA Total** | **85,017** | **87,844** | **87,844** | **87,844** | **87,844** |
| **Overall Total** | **88,317** | **97,044** | **97,725** | **97,913** | **98,286** |

*****LTL's – Long Term Liabilities, e.g. Finance lease costs

**Actual External Debt** as at 31st March 2012 = £87.57 Million (General fund £2.55m and HRA £85.02m).

## 4. Treasury Indicators

4.1 As per the CIPFA Code, it is recommended that Cabinet is informed of the limits on fixed and variable interest exposure, the maturity structure of borrowing and the upper limit for the total of principle sums invested longer than 364 days.

4.2 **Interest rate exposure** –Based on the projected investment and borrowing requirements of the Council over the next three years the upper limit on fixed and variable interest rate exposure is;

| **Interest Rate Exposure** | | | | |
|---|---|---|---|---|
| | **General Fund (£000)** | | **HRA (£000)** | |
| | **Fixed** | **Variable** | **Fixed** | **Variable** |
| 2011/12 (actual) | -93.09% | -6.91% | 98.80% | 1.20% |
| 2012/13 (estimated actual) | -99.08% | -0.92% | 99.99% | 0.01% |
| 2013/14 Limits | | | | |
| Borrowing | 100.00% | 10.00% | 100.00% | 10.00% |
| Investments | 100.00% | 100.00% | 100.00% | 100.00% |
| 2014/15 Limits | | | | |
| Borrowing | 100.00% | 10.00% | 100.00% | 10.00% |
| Investments | 100.00% | 100.00% | 100.00% | 100.00% |
| 2015/16 Limits | | | | |
| Borrowing | 100.00% | 10.00% | 100.00% | 10.00% |
| Investments | 100.00% | 100.00% | 100.00% | 100.00% |

With the exception of our bank overdraft all borrowing the Council undertakes is at a fixed rate of interest.

Investments have a 100% variable limit, as due to the way our new external funds are operated the return are variable. In addition on our internal investments our ‘savings’ account and Money Market Fund investments (maximum £4 million) are variable.

All other internal investments are done at a fixed interest rate.

4.3 **Maturity structure of borrowing** – this is the amount of projected long term borrowing that is due for repayment in each period.

| Maturity Structure of Fixed Rate Borrowing as % of Total Borrowing | | | | | |
|---|---|---|---|---|---|
| | | **General Fund** | | **HRA** | |
| | | **Projected Borrowing Amount Maturing £000** | **Total** | **Projected Borrowing Amount Maturing £000** | **Total** |
| Current Year | 2012/13 | 52 | **3.95%** | 5 | **0.01%** |
| Next yr | 2013/14 | 54 | **4.10%** | 5 | **0.01%** |
| Yr 3-5 | 2014/15 - 2016/17 | 390 | **29.61%** | 3,099 | **3.64%** |
| Y6 -10 | 2017/18 - 2021/22 | 654 | **49.66%** | 9,694 | **11.40%** |
| Y11-20 | 2022/23 - 2031/32 | 167 | **12.68%** | 34,366 | **40.42%** |
| Y21-30 | 2032/33 - 2041/42 | 0 | **0.00%** | 37,571 | **44.19%** |
| Yr31-40 | 2042/43 - 2051/52 | 0 | **0.00%** | 277 | **0.33%** |
| | | **1,317** | **100.00%** | **85,017** | **100.00%** |

In addition to this the Council has an overdraft limit of £350,000 and can borrow for periods less than 2 months at fixed rates through our brokers, in order to meet daily cash flow requirements.

4.4 **Upper limit for total principle sums invested over 364 days –** The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. This limit is set at 50% of the portfolio.

| Total Principle sums invested for periods longer than 364 days | | | | | | |
|---|---|---|---|---|---|---|
| | **General Fund** | | **HRA** | | **Total** | |
| | **Estimate total investments £000** | **Upper limit £000** | **Estimate total investments £000** | **Upper limit £000** | **Estimate total investments £000** | **Upper limit £000** |
| 2012/13 | (30,398) | (15,199) | (2,717) | (1,359) | (33,115) | (16,558) |
| 2013/14 | (30,725) | (15,363) | (4,409) | (2,205) | (35,134) | (17,567) |
| 2014/15 | (31,075) | (15,538) | (9,684) | (4,842) | (40,759) | (20,380) |
| 2015/16 | (31,387) | (15,694) | (7,168) | (3,584) | (38,555) | (19,278) |

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## 5. Other Items

5.1 Current Position on Debt and Investments as at 31 December 2012

| | £M | |
|---|---|---|
| **Short Term Internal Investments** | | |
| Bank of Scotland call account | 1.10 | |
| Fixed Term Cash Deposits < 1 Month | 9.00 | |
| Fixed Term Cash Deposits < 2 Month | 5.00 | |
| Fixed Term Cash Deposits < 3 Month | 0.00 | |
| | **15.10** | **32.92%** |
| **External Investments** (at book value) | | |
| Certificates of deposits < 1 Month | 6.40 | |
| Certificates of deposits < 3 Months | 17.52 | |
| Certificates of deposits < 6 Months | 0.00 | |
| Certificates of deposits < 1 Year | 3.00 | |
| Cash / Deposits | 0.04 | |
| Fixed Interest Security | 3.80 | |
| | **30.76** | **67.08%** |
| | | |
| **Total Investments** | **45.86** | |
| | | |
| **Borrowing** | | |
| Short Term Cash Flow Borrowing | 0.00 | |
| PWLB Loan (General Fund) < 10 years | 0.52 | |
| PWLB Loan (HRA) < 40 years | 85.00 | |
| | **85.54** | |

*Certificates of Deposits are instruments issued by banks & building societies, at a fixed rate for a fixed term.

5.2 Training

CIPFA's revised code requires the Head of Finance (Section 151 Officer) to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

There is a post with specific responsibility for treasury management within the accountancy team and the Council is are committed to ensuring the holder gains any relevant qualifications and has access to the training and support they require.

In addition, procedures for the accountancy team are in place and independent checks and authorisations are carried out. The Council also maintains an internal audit function through the South West Audit Partnership (SWAP), who annually reviews our treasury management function.

5.3 Use of Reserves

The draft 2013/14 budget has been compiled on the basis that the Council will make the following withdrawals from reserves

| | £000 |
|---|---|
| General Fund Reserves | 365 |
| Capital Reserves | 352 |
| | **717** |

The final amount to be withdrawn from reserves is subject to the final decision of Full Council on 27th February 2013.

The need to withdraw any further funds from the investment portfolio will be kept under review.

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**Appendix A - Counterparty List**
**Internal Funds**
**Building Societies** – Top 20 with Total assets over £1 Billion - £2 Million, over £5 Billion - £3 Million.

| | | Maximum Investment (£) |
|---|---|---|
| 1. | Nationwide | 3,000,000 |
| 2. | Yorkshire | 3,000,000 |
| 3. | Coventry | 3,000,000 |
| 4. | Skipton | 3,000,000 |
| 5. | Leeds | 3,000,000 |
| 6. | West Bromwich | 3,000,000 |
| 7. | Principality | 3,000,000 |
| 8. | Newcastle | 2,000,000 |
| 9. | Nottingham | 2,000,000 |
| 10. | Progressive | 2,000,000 |
| 11. | Cumberland | 2,000,000 |
| 12. | National Counties | 2,000,000 |
| 13. | Saffron | 2,000,000 |
| 14. | Cambridge | 2,000,000 |
| 15. | Manchester | 0 |
| 16. | Monmouthshire | 0 |
| 17. | Furness | 0 |
| 18. | Leek United | 0 |
| 19. | Newbury | 0 |
| 20. | Hinckley & Rugby | 0 |

**Banks** – UK Banks with a short term Fitch rating of F1 or higher

| | | |
|---|---|---|
| Lloyds Banking Group | | |
| Lloyds TSB | F1 | 2,000,000 |
| Bank of Scotland | F1 | 2,000,000 |
| Royal Bank of Scotland Group | | |
| Royal Bank of Scotland | F1 | 2,000,000 |
| National Westminster | F1 | 2,000,000 |
| Others | | |
| Santander UK PLC | F1 | 2,000,000 |
| Barclays | F1 | 2,000,000 |
| HSBC | F1+ | 2,000,000 |
| Clydesdale Bank | F1 | 2,000,000 |
| Co-op Bank | F2 | 0 |

**External Funds**

**Open Ended Investment Companies (OEIC's)**

Royal London Asset Management Cash Plus Fund
Payden & Rygel Sterling Reserve Fund

**UK Government**

**Banks/Building Societies**

| | |
|---|---|
| ***UK*** | Abbey National / Santander UK PLC |
| | Barclays Bank PLC |
| | HSBC Bank |
| | Lloyds TSB Bank Plc |
| | Nationwide Building Society |
| | Standard Chartered Bank |
| ***Australia*** | Australia & New Zealand Banking Group |
| | Commonwealth Bank of Australia |
| | National Australia Bank Ltd |
| | Westpac Banking Corporation |
| ***Canada*** | Bank of Montreal |
| | Bank of Nova Scotia (Scotia bank) |
| | Royal Bank of Canada |
| ***Europe*** | European Investment Bank |
| | European Bank for Reconstruction |
| ***Finland*** | Nordea Bank Finland |
| ***Germany*** | Deutsche Bank |
| ***Netherland*** | Rabobank International |
| ***Switzerland*** | Credit Suisse First Boston |

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## Appendix B : Sector Interest Rate Forecasts 2013 – 2016

| Sector's Interest Rate View | Now | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sector's Bank Rate View | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.75% |
| 3 Month LIBID | 0.40% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.60% | 0.60% | 0.70% | 0.80% | 1.10% | 1.40% | 1.70% | 1.90% |
| 6 Month LIBID | 0.56% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.60% | 1.90% | 2.20% |
| 12 Month LIBID | 0.92% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.10% | 1.10% | 1.20% | 1.30% | 1.30% | 1.50% | 1.80% | 2.10% | 2.40% |
| 5yr PWLB Rate | 1.66% | 1.50% | 1.50% | 1.50% | 1.60% | 1.60% | 1.70% | 1.70% | 1.80% | 2.00% | 2.20% | 2.30% | 2.50% | 2.70% | 2.90% |
| 10yr PWLB Rate | 2.64% | 2.50% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.30% | 3.50% | 3.70% | 3.90% |
| 25yr PWLB Rate | 3.88% | 3.70% | 3.80% | 3.80% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.30% | 4.40% | 4.60% | 4.80% | 5.00% |
| 50yr PWLB Rate | 4.04% | 3.90% | 4.00% | 4.00% | 4.00% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.50% | 4.60% | 4.80% | 5.00% | 5.20% |
| **Bank Rate** | | | | | | | | | | | | | | | |
| Sector's View | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.75% |
| UBS | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| Capital Economics | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | 1.66% | 1.50% | 1.50% | 1.50% | 1.60% | 1.60% | 1.70% | 1.70% | 1.80% | 2.00% | 2.20% | 2.30% | 2.50% | 2.70% | 2.90% |
| UBS | 1.66% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | 1.66% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.50% | 1.60% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | 2.64% | 2.50% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.30% | 3.50% | 3.70% | 3.90% |
| UBS | 2.64% | 2.80% | 3.00% | 3.10% | 3.20% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | - | - | - | - | - |
| Capital Economics | 2.64% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | 3.88% | 3.70% | 3.80% | 3.80% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.30% | 4.40% | 4.60% | 4.80% | 5.00% |
| UBS | 3.88% | 4.00% | 4.20% | 4.30% | 4.40% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | - | - | - | - | - |
| Capital Economics | 3.88% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | 4.04% | 3.90% | 4.00% | 4.00% | 4.00% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.50% | 4.60% | 4.80% | 5.00% | 5.20% |
| UBS | 4.04% | 4.10% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% | 4.60% | 4.60% | 4.60% | - | - | - | - | - |
| Capital Economics | 4.04% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | - | - | - | - | - |

# East Devon District Council
# Prudential Indicators 2013/14

**1.0 Introduction**

1.1 As part of the Prudential Code for Capital Finance in Local Authorities, the Council is required to attach the following Prudential Indicators to the annual budget setting report. These indicators help show the overall effect of various financing and borrowing strategies that the Council plans to adopt over the next three financial years.

1.2 The Prudential Code and the indicators that each Council are set, support the system of capital investment in the authority. They are set with regard to:

- Service objectives – strategic planning for the authority
- Stewardship of assets – asset management planning
- Value for money – option appraisal
- Prudence and sustainability – external borrowing implications
- Affordability – implications for council tax and housing rents
- Practicality – achievability of the forward plan

These indicators will also act as an early warning mechanism to flag up if the Council decides to set capital programmes without the necessary finances to fund them.

1.3 Tables 1 to 9, shown below, detail all the Prudential Indicators that are required to be attached to this budget report.

## 2.0 Affordability Indicators

### 2.1 Estimated and actual ratio of financing costs to net revenue stream

Table 1 shows how this indicator is calculated. A positive figure indicates external debt.

| Table 1: Basis of calculation for ratio of financing costs to net revenue stream | | | | |
|---|---|---|---|---|
| **General Fund (GF):** | | | | |
| **Financing costs**<br><br>Interest charged on loans<br><br>Less<br><br>Interest earned on investments | ÷ | **Budget requirement**<br><br>Revenue Support Grant<br><br>+ Council Tax | = | **The ratio of financing costs to net revenue stream (General Fund)**<br><br>as a % |
| **Housing Revenue Account (HRA):** | | | | |
| **Financing costs**<br><br>Interest charged on loans<br><br>Less<br><br>Interest earned on investments | ÷ | **Budget requirement**<br><br>Council house tenants income<br><br>+ Government subsidy received | = | **The ratio of financing costs to net revenue stream (HRA)**<br><br>as a % |

Table 2 shows both the actual ratio of financing costs to net revenue stream for 2011/12 and the estimates for 2012/13 to 2015/16.

The HRA total varies year on year due to the irregular timing of the principle loan repayments determined by the business plan. This in turn affects the surplus/deficit generated each year.

| Table 2 Ratio of Financing Costs to Net Revenue Stream 2010/11 to 2014/15 | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **%** | **%** | **%** | **%** | **%** |
| General Fund | (3.99) | (2.18) | (3.01) | (3.00) | (3.01) |
| HRA | 0.35 | 17.49 | 16.29 | 19.58 | 11.58 |

2.2 **Estimates of incremental impact of new capital investment decisions on Council Tax and average Weekly Housing Rents**

Table 3 shows the incremental impact of capital investment decisions proposed in this budget report, over and above the capital decisions that have previously been taken by the Council. Only the financing costs associated with capital loans are included. The indicator takes into account the Council Tax base of 52,962 and housing stock of 4,290 for 2013/14.

2.3 The council's General Fund (GF) currently has one loan of £0.522 million from the Public Works Loan Board (PWLB) for Recycling & Refuse, resulting in debt repayments of £72,079 (includes interest of £21,564). This loan is at a fixed rate of interest and includes both repayment of principal and interest.

2.4 The Council's Housing Revenue Account (HRA) has 24 maturity PWLB Loans, taking out under the self financing regime, totalling £84.376 Million, resulting in interest payments of £2.5 Million. The principle amount borrowed is repayable at the end of the loan, with the first repayment due to be made in 2014/15.

These loan repayments have been profiled in line with the business plan generating resources to be able to repay the principle, with a balance being struck between repaying as soon as possible and allowing the HRA to generate sufficient surpluses as a cushion against uncertainties and enabling it to carryout improvements to stock.

The HRA also has one Annuity PWLB loan of £0.639 million, resulting in debt repayments of £39,110 (includes interest of £4,871). This loan is at a fixed rate of interest and includes both repayment of principal and interest.

The financing effect of these loans on average weekly rents is £11.49 in 2012/13. (See table 3)

2.5 The 2013/14 Capital Programme includes provision for a new 10 year PWLB loan of £770,000 to fund a particular project. This will result in repayments of £85,598 based on rates available at 7$^{th}$ January 2013.

The financing effect of these loans is to increase the Council's band D tax level by from £1.25 in 2012/13 to £2.96 in 2014/15 (See table 3).

| **Table 3 Incremental Impact of new capital investment decisions on Council Tax and Weekly Housing Rents** | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **£** | **£** | **£** | **£** | **£** |
| Band D Annual Council Tax | 1.26 | 1.25 | 1.36 | 2.96 | 2.94 |
| Average Weekly Housing Rent | 0.30 | 11.49 | 11.52 | 11.54 | 11.55 |

## 3.0 Prudence

### 3.1 Capital Financing Requirement (CFR)

The Council's Capital Programme is funded from various sources:

- Use of capital receipts (sale proceeds from property)
- Contributions from revenue budgets
- Capital grants e.g. Environment Agency Grants, Disabled Facility Grant
- Contributions from other parties e.g. Devon County Council

This inevitably leaves an unfunded balance which can be met from reserves or borrowing. The Capital Reserve at Year End 2011/12 stood at £3.127 Million.

The Capital Financing Requirement therefore represents the Council's underlying need to borrow for capital purposes less any principal already repaid.

Table 4 shows both the actual capital financing requirement for 2011/12 and the estimates for 2012/13 to 2015/16.

| **Table 4 Capital Financing Requirement (CFR)** | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| General Fund | 548 | 496 | 1,211 | 1,086 | 957 |
| Housing Revenue Account | 85,017 | 85,012 | 85,007 | 84,427 | 83,398 |
| **Totals** | **85,565** | **85,508** | **86,218** | **85,513** | **84,355** |
| **Movement in CFR** | **84,321** | **(58)** | **710** | **(705)** | **(1,158)** |
| | | | | | |
| **Movement in CFR Represented by** | | | | | |
| Net Financing need for the year | 84,376 | 0 | 770 | 0 | 0 |
| Less MRP* and other financing movements | (55) | (58) | (60) | (705) | (1,158) |
| | **84,321** | **(58)** | **710** | **(705)** | **(1,158)** |

* MRP – Minimum Revenue Provision

3.2 **Gross Debt**

Table 5 shows the Council's gross debt for 2011/12 and the estimated debt balance as each year end from 2012/13 to 2015/16.

| **Table 5 Total Borrowing Outstanding** | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Borrowing** | | | | | |
| General Fund | 2,548 | 5,496 | 6,211 | 6,586 | 7,007 |
| Housing Revenue Account | 85,017 | 85,012 | 85,007 | 84,427 | 83,398 |
| **Total Borrowing** | **87,565** | **90,508** | **91,218** | **91,013** | **90,405** |

3.3 **Gross Debt v CFR**

A comparison of the Councils Gross Debt to CFR is required by the Prudential Code, with explanations of any variances, to ensure that over the medium term the council only borrows to fund its capital programme. This is shown in table 6.

The 2011/12 Statement of Accounts shows £2 Million short term borrowing for cash flow purposes and £85.6 Million in loans from Public Works Loan Board (PWLB). From 2012/13 onwards, the 2013/14 Draft Estimates are used, based on known and expected borrowing both for capital and cash flow purposes.

East Devon District Council

| Table 6 Gross Debt v Capital Financing Requirement | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Gross Debt | 87,565 | 90,508 | 91,218 | 91,013 | 90,405 |
| Total CFR | 85,565 | 85,508 | 86,218 | 85,513 | 84,355 |
| **Sub total** | **2,000** | **5,000** | **5,000** | **5,500** | **6,050** |
| Cash Flow Borrowing (short term) | 2,000 | 5,000 | 5,000 | 5,500 | 6,050 |
| **Variance** | **0** | **0** | **0** | **0** | **0** |

## 4.0 Capital Expenditure to be incurred

Table 7 shows both actual capital expenditure incurred in 2011/12 and estimates for the years 2012/13 to 2015/16.

These figures show the Council's capital programme net of any grants or contributions received from third parties e.g. Environment Agency, Arts Council.

Capital expenditure also includes the major repairs capital expenditure which for accounting purposes is shown within the HRA.

| Table 7 Total Capital Expenditure to be incurred (Actual and Estimated) | | | | | |
|---|---|---|---|---|---|
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| General Fund | 4,034 | 7,769 | 2,715 | 823 | 781 |
| HRA | 741 | 1,810 | 975 | 625 | 625 |
| **Sub Total** | **4,775** | **9,579** | **3,690** | **1,448** | **1,406** |
| Major Repairs | 2,925 | 4,140 | 5,150 | 5,150 | 5,150 |
| **Total** | **7,700** | **13,719** | **8,840** | **6,598** | **6,556** |

## 5.0 Authorised Limit for External Debt

5.1 The authorised limit is based on the Council's estimate of the most likely and prudent requirement for external debt (borrowing) during the year (the Operational Boundary) plus additional headroom for unusual cash movements.

5.2 External debt is the sum of both capital items (see 3.1 above) and short term borrowings to meet day to day cash flow variations.

5.3 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments and to delegate authority to the Section 151 Officer (Head of Finance), to operate within the total limit for any individual year.

5.4 It will be the duty of the Section 151 Officer to ensure that the authorised limits are consistent with the Council's current and future capital requirements. This limit should take account of risk management strategies, with regard to capital schemes and all future cash flow predictions and includes headroom for unusual cash movements.

5.5 Table 8 shows the actual external debt for 2011/12 and the Authorised Limit for external debt for 2012/13 to 2015/16, based on 2013/14 estimates for capital expenditure and financing.

| **Table 8 Authorised Limit for External debt (Estimated)** | | | | | |
|---|---|---|---|---|---|
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Borrowing - General Fund | 2,548 | 8,495 | 9,212 | 9,586 | 10,007 |
| Other LTL's* - General Fund | 752 | 705 | 669 | 483 | 435 |
| **General Fund Total** | **3,300** | **9,200** | **9,881** | **10,069** | **10,442** |
| Borrowing - HRA | 85,017 | 87,844 | 87,844 | 87,844 | 87,844 |
| Other LTL's* - HRA | 0 | 0 | 0 | 0 | 0 |
| **HRA Total** | **85,017** | **87,844** | **87,844** | **87,844** | **87,844** |
| **Overall Total** | **88,317** | **97,044** | **97,725** | **97,913** | **98,286** |

*****LTL's – Long Term Liabilities, e.g. Finance lease costs.

## 6.0 Operational Boundary for External Debt

6.1 The operational boundary for external debt is based on the same estimates that were used to derive the authorised limit, above, with the amount included to give a degree of 'headroom' removed. Therefore, this is fundamentally the level of external debt that the Council estimates will be undertaken during any one year. The Council is asked to approve these limits and to delegate authority to the Section 151 Officer to exceed these agreed limits and report back to you, immediately after the event.

| Table 9 Operational Boundary for External debt (Estimated) | | | | | |
|---|---|---|---|---|---|
| | **Actual** | **Per 13/14 Estimates as at 07/01/13** | | | |
| | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Borrowing - General Fund | 2,548 | 5,496 | 6,211 | 6,586 | 7,007 |
| Other LTL's* - General Fund | 752 | 705 | 669 | 483 | 435 |
| **General Fund Total** | **3,300** | **6,200** | **6,881** | **7,069** | **7,442** |
| Borrowing - HRA | 85,017 | 85,012 | 85,007 | 84,427 | 83,398 |
| Other LTL's* - HRA | 0 | 0 | 0 | 0 | 0 |
| **HRA Total** | **85,017** | **85,012** | **85,007** | **84,427** | **83,398** |
| **Overall Total** | **88,317** | **91,212** | **91,887** | **91,496** | **90,840** |

*****LTL's – Long Term Liabilities, e.g. Finance lease costs.

## 7.0 External Debt

7.1 The Council's actual external debt at 31 March 2011 was £87.6 Million (General Fund £2.6m and HRA £85 m).

## 8.0 Treasury Management Strategy

8.1 All treasury management matters will be undertaken in accordance with CIPFA's revised code for Treasury Management in the Public Services which is up for adoption on a previous agenda item. This recommends best practice on setting interest rate exposures and duration terms for investments.

## 9.0 Minimum Revenue Provision

The Council is required to pay off an element of the accumulated General Fund Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For all unsupported borrowing (including PFI and finance leases) the MRP policy will be;

- Asset life (Annuity) Method; – MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing (option 3)

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. In practice a loan repayment scheme has been defined based on the business plan, with a balance being struck between repaying as soon as possible and allowing the HRA to generate sufficient surpluses as a cushion against uncertainties and to carry out improvements to stock.

Repayments included in annual PFI or finance leases are applied as MRP .

East Devon District Council