East Devon District Council Treasury Management Strategy 2014/15
&
Prudential Indicators

Treasury Management Strategy

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, 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 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 Capita Asset Services – Treasury Solutions (formally Sector) as its external treasury management advisors.

It is recognised 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.

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.

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 (return on investment), 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 etc...)
- 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 Capita Asset Services notifying 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		
Collective 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		
Deposit Building Societies	With over £5 Billion in total assets	£3 Million
Deposit Building Societies	With over £1 Billion in total assets	£2 Million
Deposit with UK incorporated Banks	Minimum F1, A1 or P1 short term backed up by A long term credit rating	£2 Million
Deposit with Banks Incorporated outside the UK but entitled to accept deposits in UK	Minimum F1+, A1+ or P1+ short term backed up by AA- long term credit rating	£2 Million
Money Market Funds	AAAmmf long-term rating	£3 Million
UK Local, Police & Fire Authorities		£3 Million
UK Government Treasury Bills/Gilts		No limit

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

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 in counterparty ratings or other criteria that put the counterparty below the minimum 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 Banks Incorporated in the UK with a credit rating of at least A/F1, A1 or P1 with a limit of £2 Million on the amount invested.
- Investments in Banks Incorporated outside of the UK but entitled to accept deposits in the UK, per the Bank of England Prudential Regulation Authority list of banks, with a credit rating of at least AA-/F1+/A1+/P1 with a limit of £2 Million on the amount invested.
- Investments in collective investment schemes, including money market funds, 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). T
- Internal Investments less than 6 months, up to agreed limits, in UK Building Society's with an asset basis of over £1 Billion.

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

2.5 External Funds
The council currently has over £30 million invested, split between the following pooled investment vehicles, OEIC's:

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

2.6 Economic Forecast for 2014/15

Capita Asset Services our treasury advisors have provided the following forecast for the economy in 2014/15.

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.

One downside is that wage inflation continues to remain significantly below CPI inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014.

The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- *Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries.*

  Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- *Investment returns are likely to remain relatively low during 2014/15 and beyond;*
- *Borrowing interest rates have risen significantly during 2013 and are on a rising trend.*

  The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years.

  However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- *There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.*

A copy of their interest rate forecast is included as Appendix B.

3. Borrowing Requirement

3.1 General Fund

As at 31 December 2013 the Council has outstanding long term borrowings of £773,674. £468,674 is for the recycling and refuse capital scheme and £305,000 for the first tranche of the Beer CLT Loan.

The agreed facility for Beer Community Land Trust is up to £1.06 million, this leaves £755,000 still outstanding if required.

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

Full Council has also approved up to £1 Million in borrowing from the PWLB to extend a loan of £1 Million to Exeter Science Park Company to facilitate the building of the Science Park Centre.

If all of these loans were taken out before the end of 2013/14 the General Fund will have loans totalling nearly £3.3 Million at the year end.

There are currently no plans for new loans to be taken out in 2014/15 in the capital programme. However this is subject to debate on items on this agenda.

3.2 Housing Revenue Account (HRA)

As at 31 December 2013 the HRA has 25 PWLB Loans totalling just over £85 million. Of these, 24 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 principal each year) which was taken out in March 2011 for 17 New Build Properties.

3.3 2014/15 Borrowing

The capital programme for 2014/15 includes provision for a new 20 year PWLB loan of £1.45 Million. This will then be loaned onto LED, at the same rate as the loan is taken out, for the Exmouth leisure centre enhancement programme.

3.4 Cash Flow or Temporary Borrowing

In addition to borrowing for capital purposes, the council also borrows in the short term to meet day to day shortages in its cash flow.

This borrowing via the money market at fixed rates and for a fixed term less than 3 months.

3.5 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.

3.6 Borrowing in Advance of Need

The Council should not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than the expected increase in borrowing need; and
- Would not look to borrow more than 3 months in advance of need; and
- Be agreed with Section 151 Officer and Portfolio Holder for Finance in advance of borrowing taking place.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 As part of the CIPFA code for Treasury Management it is recommended that the Council is informed of the anticipated borrowing limits required for the forthcoming financial year. These limits are included in the Prudential Indicators appended to the 2014/15 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.

Operational Boundary for External debt (Estimated)					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	3,196	9,461	10,913	10,913	10,866
Other LTL's* - General Fund	638	568	568	407	428
General Fund Total	**3,834**	**10,029**	**11,482**	**11,321**	**11,294**
Borrowing - HRA	85,012	85,007	85,007	84,427	83,398
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**85,012**	**85,007**	**85,007**	**84,427**	**83,398**
Overall Total	**88,846**	**95,036**	**96,488**	**95,747**	**94,692**

*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.

Authorised Limit for External debt (Estimated)					
	Actual	**Per 14/15 Estimates as at 06/01/14**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	3,196	12,461	13,913	13,913	13,866
Other LTL's* - General Fund	638	568	568	407	428
General Fund Total	**3,834**	**13,029**	**14,482**	**14,321**	**14,294**
Borrowing - HRA	85,012	87,844	87,844	87,844	87,844
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**85,012**	**87,844**	**87,844**	**87,844**	**87,844**
Overall Total	**88,846**	**100,873**	**102,326**	**102,165**	**102,138**

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

Actual External Debt as at 31st March 2013 = £88.85 Million (General fund £3.84m and HRA £85.01m).

4. Treasury Indicators

4.1 As per the CIPFA Code, it is recommended that Council is informed of the limits on fixed and variable interest exposure, the maturity structure of borrowing and the upper limit for the total of principal 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		**HRA**	
	Fixed	**Variable**	**Fixed**	**Variable**
2014/15 Limits				
Borrowing	100 %	20%	100%	20%
Investments	40%	100%	40%	100%
2015/16 Limits				
Borrowing	100%	20%	100%	20%
Investments	40%	100%	40%	100%
2016/17 Limits				
Borrowing	100%	20%	100%	20%
Investments	40%	100%	40%	100%

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 returns from our external investment funds are classed as variable, along with returns from our internal investment 'savings' account and Money Market Fund investments.

All other internal investments are at a fixed interest rate.

4.3 **Maturity structure of borrowing** – this is the amount of projected long term capital borrowing that is due for repayment in each period expressed as a percentage of total borrowing. A limit is set to reduce the Council's exposure to large sums falling due in any one period.

At any point the actual percentages of debt projected to mature in each year will add up to 100%, but the proposed indicator is for a range of approved percentages. This gives discretion within an approved range to the treasury team. It does mean that each 'set' of figures will sum to more than 100%.

The council is asked to approve the following limits

Limits on Maturity Structure of Fixed Rate Borrowing as % of Total Borrowing					
		General Fund		**HRA**	
		Upper Limit	**Lower Limit**	**Upper Limit**	**Lower Limit**
Current Year	2013/14	20%	0%	20%	0%
Next yr	2014/15	20%	0%	20%	0%
Yr 3-5	2016/16 - 2017/18	50%	0%	50%	0%
Y6 -10	2018/19 - 2022/23	75%	0%	75%	0%
Y11+	2023/24 +	90%	0%	90%	0%

Based on capital borrowing plans included in the budget our current projected maturity structure of borrowing is:

Estimated 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	2013/14	54	**1.15%**	5	**0.01%**
Next yr	2014/15	148	**3.14%**	580	**0.68%**
Yr 3-5	2016/16 - 2017/18	1,550	**32.87%**	3,829	**4.50%**
Y6 -10	2018/19 - 2022/23	905	**19.19%**	11,272	**13.26%**
Y11-20	2023/24 - 2032/33	1,905	**40.40%**	37,541	**44.16%**
Y21-30	2033/34 - 2042/43	153	**3.25%**	31,532	**37.09%**
Yr31-40	2043/44 - 2052/53	0	**0.00%**	252	**0.30%**
		4,715	**100.00%**	**85,012**	**100.00%**

In addition to the above, the Council has an overdraft limit of £350,000 and can borrow for periods less than 3 months at fixed rates through our brokers, in order to meet daily cash flow requirements.

4.4 **Upper limit for total principal sums invested over 364 days –** Only the Councils external funds can be invested for over 364 days and this totals £30.81 Million. All though in practice the council can get access to this money with 3 days notice.

5. Other Items

5.1 Current Position on Debt and Investments as at 31 December 2013

	£M	
Short Term Internal Investments		
Bank of Scotland call account	1.45	
Public Sector Deposit Fund (Money Market Fund – Call Account)	0.03	
Fixed Term Cash Deposits < 1 Month	6.20	
Fixed Term Cash Deposits < 2 Month	4.00	
Fixed Term Cash Deposits < 3 Month	0.00	
	11.68	**27.49%**
External Investments		
Royal London Asset Management - Cash Plus Fund	15.42	
Payden & Rygel - Sterling Reserve Fund	15.39	
	30.81	**72.51%**
Total Investments	**42.49**	
Borrowing		
Short Term Cash Flow Borrowing	0.00	
PWLB Loan (General Fund) < 10 years	0.77	
PWLB Loan (HRA) < 40 years	85.01	
	85.78	

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 committed to ensuring the holder has 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.

In the latest audit by SWAP, our treasury management function was given a Substantial Opinion, which is the highest opinion available.

5.3 Use of Reserves

The draft 2014/15 budget has been compiled on the basis that the Council will make the following withdrawals from reserves

	£000
General Fund Reserves	0
Capital Reserves	876
	876

The final amount to be withdrawn from reserves is subject to the final decision of Full Council on 26th February 2014.

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

Appendix A - Counterparty List
Internal Funds
Building Societies –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. Principality	3,000,000
7. West Bromwich	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

Banks –

i. 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

ii. Non UK Incorporated Banks entitled to accept deposits in the UK with a Short term Fitch rating of F1+ and a Long term rating of AA- or higher

	Short Term	Long Term	Entitled to Accept Deposits in UK
Abu Dhabi (U.A.E)			
National Bank of Abu Dhabi	F1+	AA-	Yes
Australia			
Australia and New Zealand Banking Group Ltd	F1+	AA-	Yes
Commonwealth Bank of Australia	F1+	AA-	Yes
National Australia Bank Ltd	F1+	AA-	Yes
Westpac Banking Corporation	F1+	AA-	Yes
Canada			
Bank of Montreal	F1+	AA-	Yes
Bank of Nova Scotia	F1+	AA-	Yes
Canadian Imperial Bank of Commerce	F1+	AA-	Yes
Royal Bank of Canada	F1+	AA	Yes
Toronto Dominion Bank	F1+	AA-	Yes
Finland			
Nordea Bank Finland plc	F1+	AA-	Yes
Netherlands			
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	F1+	AA-	Yes
Singapore			
DBS Bank Ltd	F1+	AA-	Yes
United Overseas Bank Ltd	F1+	AA-	Yes
Sweden			
Svenska Handelsbanken AB	F1+	AA-	Yes
U.S.A			
Bank of New York Mellon, The	F1+	AA-	Yes
HSBC Bank USA, N.A.	F1+	AA-	Yes
Northern Trust Company	F1+	AA-	Yes
Wells Fargo Bank NA	F1+	AA-	Yes

External Funds

Open Ended Investment Companies (OEIC's)

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

Appendix B: Interest Rate Forecasts 2013 – 2017

Capita Asset Services Interest Rate View														
	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
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%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	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%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.10%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.30%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.10%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.30%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.30%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

East Devon District Council Prudential Indicators 2014/15

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 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 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

The indicators also act as an early warning system, to flag up if the Council decides to set capital programmes without the necessary finances to fund them.

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

1.4 The indicators shown in this report exclude any capital and borrowing implications of any decision that full Council may make on Office Relocation. Once a decision is reached, revised indicators will be submitted for approval.

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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 Minimum Revenue Provision (see 9.0) Plus Interest charged on loans and Finance Leases Less Interest earned on investments	÷	**Budget requirement** Revenue Support Grant + Council Tax	=	**The ratio of financing costs to net revenue stream (General Fund)** as a %
Housing Revenue Account (HRA):				
Financing costs Voluntary Revenue Provision (see 9.0) Plus Interest charged on loans and Finance Leases Less Interest earned on investments	÷	**Budget requirement** Council house tenants income +/- Contribution to or from HRA reserves	=	**The ratio of financing costs to net revenue stream (HRA)** as a %

Table 2 shows both the actual ratio of financing costs to net revenue stream for 2012/13 and the estimates for 2013/14 to 2016/17.

Table 2 Ratio of Financing Costs to Net Revenue Stream					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	%	**%**	**%**	**%**	**%**
General Fund	0.55	0.68	1.96	1.31	(0.60)
HRA	20.50	16.39	18.88	20.75	22.49

The General Fund ratio rises as financing costs increase due to reduced interest receipts and new capital loans. In 2015/16 the financing costs start to fall in line with expectations of higher interest receipts and so the ratio also falls.

The initial drop in the HRA ratio is due an increased budget requirement as spending on improving the housing stock increases. This results in reduced surplus going into reserves. The ratio then rises again from 2014/15 as the HRA self financing loans become due.

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. Only the financing costs associated with capital loans are included.

The indicator takes into account the Council Tax base of 54,047 and housing stock of 4,252 for 2013/14.

Table 3 Incremental Impact of new capital investment decisions on Council Tax and Weekly Housing Rents					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£	**£**	**£**	**£**	**£**
Band D Annual Council Tax	1.25	1.45	6.01	5.96	5.66
Average Weekly Housing Rent	11.35	11.41	14.07	16.13	18.24

2.3 The Council's General Fund (GF) currently has one annuity 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 £17,743). This loan is at a fixed rate of interest and includes both repayment of principal and interest.

The GF also has one maturity PWLB Loan of £0.305 million, resulting in interest payments of £5,307. We have then loaned this onto Beer Community Land Trust Limited with the same rates as the loan taken out. This loan is to facilitate the building of affordable housing in Beer for the local community, and there is agreement from council for up to a total of £1.06 Million to be loaned to the trust.

2.4 The Council's Housing Revenue Account (HRA) has 24 maturity PWLB Loans, taken out under the self financing regime, totaling £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 was £11.35 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. This will result in estimated repayments of £89,125 based on rates available at 16th December 2013.

Also there is provision for the Council to loan £1 million to Exeter Science Park, which the Council will borrow from the PWLB resulting in estimated interest payments of £39,200.

2.6 The 2014/15 Capital Programme includes provision for a new 20 year PWLB loan of £1.45 Million. This will result in estimated repayments of £106,384 based on rates available at 21st January 2014.

We will then be loaning this on to LED for the Exmouth Leisure Centre Enhancement Programme, at the same rates as the loan is taken out.

The effect of these Capital loans is an increase of £4.56 in the proportion of the Councils Band D tax level used for capital financing costs. This increases from £1.45 in 2012/13 to £6.01 in 2014/15 (See table 3).

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 leaves an unfunded balance which can be met from reserves or borrowing. The Capital Reserve at Year End 2012/13 stood at £2.595 Million.

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

Table 4 shows both the actual CFR for 2012/13 and the estimates for 2013/14 to 2016/17.

Table 4 Capital Financing Requirement (CFR)					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	496	3,211	4,513	4,336	3,153
Housing Revenue Account	85,012	85,007	84,427	83,398	81,908
Totals	**85,508**	**88,218**	**88,940**	**87,734**	**85,061**
Movement in CFR	**(58)**	**2,710**	**722**	**(1,206)**	**(2,673)**
Movement in CFR Represented by					
Net Financing need for the year	0	2,770	1,450	0	0
Less MRP* and other financing movements	(58)	(60)	(728)	(1,206)	(2,673)
	(58)	**2,710**	**722**	**(1,206)**	**(2,673)**

* MRP – Minimum Revenue Provision

3.2 **Gross Debt**

Table 5 shows the Council's gross debt for 2012/13 and the estimated debt balance as each year end from 2013/14 to 2016/17.

Table 5 Total Borrowing Outstanding					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing					
General Fund	3,196	9,461	10,913	10,866	9,813
Housing Revenue Account	85,012	85,007	84,427	83,398	81,908
Total Borrowing	**88,208**	**94,468**	**95,340**	**94,264**	**91,721**

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.

Table 6 Gross Debt v Capital Financing Requirement					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Gross Debt	88,208	94,468	95,340	94,264	91,721
Total CFR	85,508	88,218	88,940	87,734	85,061
Sub total	**2,700**	**6,250**	**6,400**	**6,530**	**6,660**
Cash Flow Borrowing	2,700	6,250	6,400	6,530	6,660
Variance	**0**	**0**	**0**	**0**	**0**

The 2012/13 Statement of Accounts showed £2.7 Million short term borrowing for cash flow purposes and £85.5 Million in loans from Public Works Loan Board (PWLB). From 2013/14 onwards estimates are used, based on known and expected borrowing both for capital and cash flow purposes.

4.0 Capital Expenditure to be incurred

Table 7 shows both actual capital expenditure incurred in 2012/13 and estimates for the years 2013/14 to 2016/17.

Table 7 Total Capital Expenditure to be incurred (Actual and Estimated)					
	Actual	**Per 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	6,167	14,047	13,701	5,168	6,040
HRA	1,245	1,914	625	625	625
Sub Total	**7,412**	**15,961**	**14,326**	**5,793**	**6,665**
Major Repairs	3,664	5,150	5,150	5,150	5,150
Total	**11,706**	**21,111**	**19,476**	**10,943**	**11,815**

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.

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 For the General Fund the headroom is set at £3 Million.

For the HRA we have used the debt cap of £87.844 Million set by the Government as the authorised limit.

5.3 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.

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

5.5 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.

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5.6 Table 8 shows the actual external debt for 2012/13 and the Authorised Limit for external debt for 2013/14 to 2016/17, based on estimates for capital expenditure and financing.

Table 8 Authorised Limit for External debt (Estimated)					
	Actual	**Per 14/15 Estimates as at 06/01/14**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	3,196	12,461	13,913	13,913	13,866
Other LTL's* - General Fund	638	568	568	407	428
General Fund Total	**3,834**	**13,029**	**14,482**	**14,321**	**14,294**
Borrowing - HRA	85,012	87,844	87,844	87,844	87,844
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**85,012**	**87,844**	**87,844**	**87,844**	**87,844**
Overall Total	**88,846**	**100,873**	**102,326**	**102,165**	**102,138**

*****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 as 'headroom' removed.

This is 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 14/15 Estimates**			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	3,196	9,461	10,913	10,913	10,866
Other LTL's* - General Fund	638	568	568	407	428
General Fund Total	**3,834**	**10,029**	**11,482**	**11,321**	**11,294**
Borrowing - HRA	85,012	85,007	85,007	84,427	83,398
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**85,012**	**85,007**	**85,007**	**84,427**	**83,398**
Overall Total	**88,846**	**95,036**	**96,488**	**95,747**	**94,692**

*****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 2013 was £88.85 Million (General Fund £3.84m and HRA £85.01 m).

8.0 Treasury Management

8.1 The Council adopts the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

All treasury management matters will be undertaken in accordance with the code, which recommends best practice in treasury management, including setting a strategy and reporting requirements.

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 require Full Council to approve an MRP Statement in advance of each year. This has to be a prudent provision and a number of options are available to councils.

It is recommended that Council 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 .

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