

REPORT TO: East Lothian Council

MEETING DATE: 25 February 2014

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Treasury Management Strategy 2014/15 to 2016/17

1 PURPOSE

- 1.1 To seek the approval of the Council of the Treasury Management and Investment Strategies for 2014/15 to 2016/17.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to :
- i. Note the Treasury Management Strategy detailed in section 3.4.
 - ii. Note the Investment Strategy detailed in section 3.19
 - iii. Approve authorised limits for external debt as detailed in section 3.13.
 - iv. Approve operational boundaries for external debt as detailed in section 3.15.
 - v. Approve the delegation of authority to the Head of Council Resources to effect movement between external borrowing and other long-term liabilities as detailed in section 3.16.
 - vi. Approve the detailed Treasury Management Strategy Statement which has been lodged in the Members Library (Ref: 24/14, February 2014 Bulletin).

3 BACKGROUND

- 3.1 It is a statutory requirement under Section 93 of the Local Government Finance Act 1992, that the Council produces a balanced budget. In particular, a local authority must calculate its budget for each financial year to include the revenue costs that flow from capital financing

decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby related charges to the revenue accounts from:

- Increased interest charges caused by increased borrowing to finance additional capital expenditure, and
- Increased running costs arising from new capital projects

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

- 3.2 The Treasury Management Code of Practice, updated by CIPFA in 2011, requires the Council to approve a Treasury Management Strategy and an Investment Strategy in advance of each financial year.
- 3.3 A detailed document covering both the Treasury Management and Investment Strategies for 2014/15 to 2016/17 has been placed in the Members Library (Ref: 24/14, February 2014 Bulletin). This report highlights the key points from those strategies. The figures used are those utilised in setting the Council Tax and HRA rents on 11 February 2014.

Treasury Management Strategy

- 3.4 Actual capital expenditure incurred in 2012/13 together with the estimates of total gross capital expenditure to be incurred for 2013/14 and future years are detailed below in Table 1:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
	actual	estimate	estimate	estimate	estimate
General Services	28,526	32,470	19,941	21,934	22,498
HRA	23,690	22,557	21,871	18,221	16,812
TOTAL	52,216	55,027	41,812	40,155	39,310

- 3.5 Not all of this spending will be funded by borrowing but rather much of it will be funded by grant, receipts and other capital income contributions. Table 2 overleaf details the actual and planned capital expenditure over the period alongside the sources of funding.

Table 2: Net Financing Need for the Year					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
	actual	estimate	estimate	estimate	estimate
General Services Gross	28,526	32,470	19,941	21,934	22,498
HRA Gross Capital Spend	23,690	22,557	21,871	18,221	16,812
Sub-total	52,216	55,027	41,812	40,155	39,310
Financed by;					
Capital grants	(14,107)	(11,088)	(15,747)	(12,489)	(9,023)
Capital receipts/contributions	(1,211)	(5,694)	(5,183)	(2,626)	(3,173)
Capital reserves	-	-	-	-	-
Revenue Contributions	(2,599)	(1,519)	(4,221)	(3,211)	(1,232)
Sub-total	(17,917)	(18,301)	(25,151)	(18,326)	(13,428)
Net Financing Need for the Year	34,299	36,726	16,661	21,829	25,882

- 3.6 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2012/13 are listed in Table 3 below:

Table 3: Ratio of financing costs to revenue stream					
	2012/13	2013/14	2014/15	2015/16	2016/17
	%	%	%	%	%
	actual	estimate	estimate	estimate	estimate
General Services	7.73%	8.56%	8.61%	8.62%	8.98%
HRA	26.58%	32.05%	34.14%	35.22%	36.39%

- 3.7 The relatively gradual increase in the General Services ratio reflects the standstill in corporate income against a background of continuing, albeit lesser capital spend. The increase in the HRA ratio reflects the large planned investment in both new affordable housing and modernisation of existing stock, which is mainly financed through borrowing. This borrowing has to be repaid with interest and this leads to increased financing costs.
- 3.8 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Treasury Management in the Public Services. The Council has at any point in time a number of cash flows both positive and negative. In day-to-day cash management, no distinction is made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of

the Council and not simply those arising from capital spending. However, other than to manage short-term cash flows, the Council is not allowed to borrow for revenue purposes.

- 3.9 Estimates of the end of year capital financing requirement (CFR) for the Council for the current and future years, and the actual CFR at 31 March 2013 are detailed in Table 4 below;

Table 4: Capital Financing Requirement (CFR)					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
	actual	estimate	estimate	estimate	estimate
Total CFR at start of year	388,939	412,027	436,166	439,192	446,950
Movement in CFR represented	23,088	24,139	3,026	7,758	10,664
Total CFR at end of the year	412,027	436,166	439,192	446,950	457,614
Movement in CFR represented by					
Net Financing Need for the year (above)	34,299	36,726	16,661	21,829	25,882
Less: Scheduled Debt Amortisation	(11,211)	(12,587)	(13,635)	(14,071)	(15,218)
Movement in CFR	23,088	24,139	3,026	7,758	10,664

- 3.10 The importance of the CFR lies in the way it measures the need to borrow for a capital purpose excluding the effect of revenue cash flows.
- 3.11 The key indicator of prudence is that external borrowing should not exceed the CFR for the preceding year plus additional CFR in the current and two following years. At the close of the 2012/13 financial year, the Council was well within this indicator, as the relevant CFR was £412.027 million and external borrowing was £361.251 million.
- 3.12 The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised in Table 5 below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR) highlighting any over or under borrowing.

Table 5: Actual Debt and the Capital Financing Requirement (CFR)					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
	actual	estimate	estimate	estimate	estimate
Total External debt at start of year	334,249	361,251	398,441	408,530	425,139
Expected/Actual change in debt	28,319	38,516	11,382	17,795	18,760
Other long term liabilities (OLTL)	47,406	46,089	44,763	43,470	42,284
Expected/Actual change OLTL	(1,317)	(1,326)	(1,293)	(1,186)	(1,186)
Actual gross debt at 31 March	361,251	398,441	408,530	425,139	442,713
The Capital Financing Requirement	412,027	436,166	439,192	446,950	457,614
(Under)/Over borrowing	(50,776)	(37,725)	(30,662)	(21,811)	(14,901)

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

Table 6: Authorised Limit for External Debt				
	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
	estimate	estimate	estimate	estimate
Borrowing	419,000	423,000	432,000	444,000
Other long term liabilities	57,000	56,000	55,000	53,000
Total	476,000	479,000	487,000	497,000

- 3.14 These authorised limits are consistent with the Council's current commitments, existing plans and the budget proposals for capital expenditure and financing approved on 11 February, and with the approved treasury management policy. The limits are based on the estimate of the most likely, prudent but not worst-case scenario with, in addition, sufficient headroom over and above this to allow for the operational management of unusual cash flows, such as debt restructuring.
- 3.15 The Council is also asked to approve in Table 7 the operational boundaries for gross external debt. These are based on the authorised limits but excluding headroom.

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
	estimate	estimate	estimate	estimate
Borrowing	388,760	393,103	402,187	414,144
Other long term liabilities	47,406	46,089	44,763	43,470
Total	436,166	439,192	446,950	457,614

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

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

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

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

	2014/15		2015/16		2016/17	
	£	p	£	p	£	p
	estimate		estimate		estimate	
Increase in Council Tax (band D) per annum	£	6.05	£	1.29	£	19.17
Increase in average housing rent per week	£	1.89	£	1.72	£	1.74

Investment Strategy

3.19 The Council's Investment Strategy for 2014-17 has been prepared in accordance with the Local Government Investments (Scotland) Regulations 2010 and the CIPFA Treasury Management Code.

- 3.20 The Investment Strategy details the approach which the Council will take to minimise the risk to investments and lists the investments which the Council will be permitted to use.
- 3.21 Common Good and Charitable Trust funds are managed on behalf of the Council by an external investment management firm. The strategy details the Council's policy on the investment of these funds.
- 3.22 The indicator below sets a limit on the total level of investments held for longer than 364 days

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
Principal sums invested > 364 days	£m 30	£m 30	£m 30

4 POLICY IMPLICATIONS

- 4.1 Implementation of Council policy and supporting plans will require capital expenditure. The policy effect of a proposed capital expenditure will be assessed as part of the project appraisal.
- 4.2 The limited resources available form an important constraint on the development of policy, which requires to be managed through the development of a sustainable Council Plan associated with a supporting Corporate Asset Management Plan.

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial – these strategies are interwoven with the revenue and capital budgets. The expenditure and debt limits are consistent with the revenue budgets approved by the Council on 11 February 2014.
- 6.2 Personnel - none directly from this report although there may be implications arising from capital investment decisions.
- 6.3 Other – capital investment choices made have a major impact on the property, equipment and IT resources available for the delivery of services.

7 BACKGROUND PAPERS

- 7.1 CIPFA (2011) – “Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes”
- 7.2 CIPFA (2011) – “The Prudential Code for Capital Finance in Local Authorities”
- 7.3 The Local Government (Scotland) Regulations 2010
- 7.4 Capital Investment & Treasury Management Strategy 2013/14 to 2015/16
- 7.5 Council 11 February 2014 – all budget papers

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