ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**21st November 2012**
3.	**Title:**	**Mid Year Treasury Management and Prudential Indicators Monitoring Report 2012/13**
4.	**Directorate:**	**Resources**

5. Summary

Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

The report is structured to highlight the key changes to the Council's capital activity (the PIs), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

6. Recommendations

The Audit Committee is asked to:

1. **Note the report and the treasury activity; and**
2. **Refer the report to Cabinet to consider recommending the Council approve changes to the prudential indicators**.

7. Proposals and Details

The Strategic Director of Resources has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the “Prudential Code”.

8. Finance

Treasury Management forms an integral part of the Council’s overall financial arrangements.

The assumptions supporting the capital financing budget for 2012/13 and for future years covered by the Council’s MTFS were reviewed in light of economic and financial conditions and the future years’ capital programme.

The Treasury Management and Investment Strategy is not forecast to have any further revenue consequences other than those identified and planned for in both the Council’s 2012/13 Revenue Budget and approved MTFS.

9. Risks and Uncertainties

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective treasury management will assist in delivering the Council’s policy and performance agenda.

11. Background Papers and Consultation

CIPFA Code of Practice for Treasury Management in Local Authorities
Local Government Act 2003
CIPFA “Prudential Code”

Contact Name: Derek Gaffney, Chief Accountant, ext 7422005 or 22005
derek.gaffney@rotherham.gov.uk

Appendix

Mid Year Prudential Indicators and Treasury Management Monitoring Report

1. Introduction and Background to the Report

1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Cabinet in February 2012 and approved by Council on 7 March 2012.

1.3 The Council's revised capital expenditure plans (Section 2.2 of this report) and the impact of these revised plans on its financing are set out in Section 2.3. The Council's capital spend plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.

1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the CLG Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.

1.5 The underlying economic and financial environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.

1.6 The Strategic Director of Resources can report that the basis of the treasury management strategy, the investment strategy and the PIs are not materially changed from that set out in the approved Treasury Management Strategy (March 2012).

2. Key Prudential Indicators

2.1. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

2.2 **Capital Expenditure (PI)**

2.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate reflects the latest position in the 2012/13 capital monitoring report presented to Cabinet on 17 October 2012.

Capital Expenditure by Service	2012/13 Original Estimate £m	2012/13 Revised Estimate £m
Children & Young People's Services	18.220	21.186
Environmental & Development Services	17.442	18.624
Neighbourhoods & Adult Services (including the HRA)	24.956	25.426
Resources*	2.795	10.779
Total	63.413	76.015

* - revised estimate includes the Community Stadium Development loan facility (£5m)

2.3 **Impact of Capital Expenditure Plans**

Changes to the Financing of the Capital Programme

2.3.1 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

Capital Expenditure	2012/13 Original Estimate £m	2012/13 Revised Estimate £m
Total spend	63.413	76.015
Financed by:		
Capital receipts	1.439	1.890
Capital grants, capital contributions & other sources of capital funding	55.402	56.939
Borrowing Need	6.572	17.186
Total Financing	**63.413**	**76.015**
Supported Borrowing	0.306	0.210
Unsupported Borrowing	6.266	16.976
Borrowing Need	**6.572**	**17.186**

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 As reported to Audit Committee in September 2012 actual expenditure financed by borrowing in 2011/12 was £2m less than anticipated. The increase in borrowing need for 2012/13 reflects the re-profiling of projects within the approved capital programme together with new approvals (e.g. the Community Stadium Development loan facility of £5m).

Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)

2.3.3 The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary which was set at the beginning of the financial year at £672.666m.

Prudential Indicators – Capital Financing Requirement & External Debt / the Operational Boundary

2.3.4 In addition to showing the underlying need to borrow, the Council's CFR has since 2009/10, also included other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The estimate for 2012/13 has been revised to incorporate the effect of changes in the borrowing need from such arrangements.

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	322.513		330.967
CFR – Housing	303.979		303.959
Total CFR excluding PFI, finance leases and similar arrangements	626.492		634.926
Net movement in CFR	-5,357		7,506
Total CFR excluding PFI, finance leases and similar arrangements	626.492		634,926
Cumulative adjustment for PFI, finance leases and similar arrangements	139.958		129.338
Total CFR including PFI, finance leases and similar arrangements	766.450		764.264
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	526.431	489.572	496.908
Other long term liabilities*	139.958	130.340	129.338
Total Debt 31 March	666.389	619.912	626.246

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	96.412	96.412	96.412
Other long term liabilities	0	0	0
Total Debt 31 March	96.412	96.412	96.412

3. Limits to Borrowing Activity

3.1 The first key control over the treasury activity is a PI to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent to do so.

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Gross Borrowing	526.431	489.572	496.908
Plus Other Long Term liabilities*	139.958	130.340	129.338
Less Investments	30.000	22.150	20.000
Net Borrowing	636.389	597.762	606.246
CFR*	766.450	761.513	764.264

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

3.2 The Strategic Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this PI.

3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (RMBC)	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Borrowing	638.447	489.572	644.175
Other long term liabilities*	139.958	130.340	129.338
Total	778.405	619.912	773.513

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Authorised limit for external debt (Former SYCC)	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Borrowing	100.000	96.412	100.000
Other long term liabilities*	0	0	0
Total	100.000	96.412	100.000

4. Treasury Strategy 2012/13 – 2014/15

4.1 Debt Activity during 2012/13

4.1.1 The expected borrowing need is set out below:

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
CFR	766.450	761.513	764.264
Less Other Long Term Liabilities*	139.958	130.340	129.338
Net Adjusted CFR (y/e position)	626.492	631.173	634,926
Borrowed at 31/10/12	480.472	489.572	489.572
Under borrowing at 31/10/12	146.020	141.601	145.354
Borrowed at 31/10/12	480.472		489.572
Estimated to 31/03/13	45.959		7.336
Total Borrowing	526.431		496.908
Under borrowing at 31/03/13	100.061		138.018

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

4.1.2 The Council is currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. There is also an interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.

4.1.3 During the seven months to 31 October 2012 the Council has borrowed the following amounts:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£2,800,000	Fixed rate	3.22%	10 years
PWLB	£1,300,000	Fixed rate	1.89%	10 years
Siemens	£10,000,000	Fixed rate	3.14%	15 years
Siemens	£10,000,000	Fixed rate	3.22%	10 years

4.1.4 During the seven months to 31 October 2012, the Council has repaid the following amounts:

Lender	Principal	Type	Interest Rate
PWLB	£5,000,000	Fixed rate	4.03%
PWLB	£1,000,000	Fixed rate (EIP)	3.46%
PWLB Annuity	£68,284	Annual repayments	Various

The PWLB loan of £5m was repaid in April 2012 on maturity.

The EIP loan is for £20m which is being repaid in equal half yearly instalments of £1m over its 10 year term.

4.1.5 There has been no restructuring or early repayment of existing debt.

5. Investment Strategy 2012/13 – 2014/15

5.1 **Key Objectives** – The primary objective of the Council's investment strategy is the safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns officers continue to implement an operational investment strategy which further tightens the controls already in place in the approved investment strategy.

5.2 **Current Investment Position** - The Council held £22.15m of investments at 31 October 2012 (excluding Icelandic Banks), and the constituent parts of the investment position are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m
Banks	UK	0	0	0
DMO	UK	22.15	0	0
Local Authorities	UK	0	0	0
Total		22.15	0	0

5.3 **Risk Benchmarking –** A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting.

The following reports the current position against the benchmarks.

5.3.1 **Security –** The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the investment strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity –** In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- A Bank overdraft facility of £10m
- Liquid short-term deposits of at least £3m available within a week's notice.

The Strategic Director of Resources can report that liquidity arrangements were adequate during the year to date.

5.3.3 **Yield –** a local measure for investment yield benchmark is internal returns above the 7 day LIBID rate

The Strategic Director of Resources can report that the return to date averages 0.25%, against a 7 day LIBID to end October 2012 of 0.42%. This is reflective of the Council's current approach to risk whereby security has been maximised by using the Debt Management Office and other Local Authorities as the principal investment counterparties.

6. Revisions to the Investment Strategy

6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

7. Treasury Management Prudential Indicators

7.1 **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2012/13 Original Indicator %	2012/13 Revised Indicator %
Non-HRA	9.74	8.89
HRA	18.81	19.45

7.2 The revised non HRA indicator reflects the impact of borrowing being at rates less than originally anticipated for 2012/13. The HRA indicator has increased slightly due to the final HRA revenue budget being less than that assumed in the original indicator.

7.3 **Prudential indicator limits based on debt net of investments**

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.

- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2012/13 Original Indicator	Current Position	2012/13 Revised Indicator
Prudential indicator limits based on debt net of investments			
Limits on fixed interest rates based on net debt	100%	75.18%	100%
Limits on variable interest rates based on net debt	30%	24.82%	30%

7.4 **Maturity Structures Of Borrowing –** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

RMBC	**2012/13 Original Indicator**		**Current Position**	**2012/13 Revised Indicator**	
	Lower	**Upper**		**Lower**	**Upper**
Maturity Structure of fixed borrowing					
Under 12 months	0%	35%	0.29%	0%	35%
12 months to 2 years	0%	35%	0.57%	0%	35%
2 years to 5 years	0%	40%	13.78%	0%	40%
5 years to 10 years	0%	40%	14.43%	0%	40%
10 years to 20 years	0%	45%	15.15%	0%	45%
20 years to 30 years	0%	50%	9.38%	0%	50%
30 years to 40 years	0%	50%	2.75%	0%	50%
40 years to 50 years	0%	55%	21.70%	0%	55%
50 years and above	0%	60%	21.95%	0%	60%

The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now largely fixed as the need and indeed opportunities to re-finance within the remaining 10 years will be limited. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	**2012/13 Original Indicator**		**Current Position**	**2012/13 Revised Indicator**	
	Lower	**Upper**		**Lower**	**Upper**
Maturity Structure of fixed borrowing					
Under 12 months	0%	50%	0%	0%	50%
12 months to 2 years	0%	70%	0%	0%	70%
2 years to 5 years	0%	100%	20.13%	0%	100%
5 years to 10 years	0%	100%	79.87%	0%	100%

7.5 **Total Principal Funds Invested –** These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. The above also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Maximum principal sums invested > 364 days	10	0	10
Comprising			
Cash deposits	10	0	10