Treasury Management

Activity 2012/13

Capital Financing Requirement

The key area of Treasury Management is the measurement and control of the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance its capital expenditure. The revised estimate of the CFR for 2012/13 and the actual outturn CFR are shown in the table below:

	Revised Budget 2012/13 £000	Actual Outturn 2012/13 £000
Capital Financing Requirement 1 April	112,713	112,713
Prudential Borrowing Gen Fund – Project Horizon	6,288	4,907
Prudential Borrowing General Fund Other Schemes	1,577	0
Prudential Borrowing HRA	0	0
Leasing Repayments	(110)	(132)
New Leasing Arrangements	0	101
Minimum Revenue Provision (MRP)	(404)	(399
Movement on other debt – retentions	0	42
HRA Debt Repayment per business plan	(1,000)	(1,000)
Repayment of Allowable Debt	0	(392)
Capital Financing Requirement 31 March 2013	**119,064**	**115,840**

The overall position shows a net increase of outstanding debt of £3,127m in 2012/13. The increase relates to the temporary prudential borrowing required for Project Horizon £4.907m (until forecast capital receipts are received) and new finance leases for replacement vehicles £0.101m. The debt repayments are for finance leases £0.132m, minimum revenue provision £0.399m, the commencement of the repayment of the HRA settlement debt £1.0m and a repayment of Allowable debt £0.392m.

This last item relates to the Sale of Council Houses. Under the new HRA reforms when a Council dwelling is sold the Council is allowed to retain some of the capital receipts because it is carrying debt on each property following the HRA reforms settlement. It is called the Allowable Debt calculation. It is advisable that the retained receipt element for Allowable Debt is actually utilised to repay the debt outstanding on the sold houses otherwise the Council is carrying debt where it has no asset.

The Capital Financing requirement is split between the HRA and General Fund the balance of each is shown below:

Capital Financing Requirement at 31 March 2013	**£000**
General Fund	16,294
Housing Revenue Account	99,505
Other debt – retentions	41
Total CFR	**115,840**

From the HRA CFR the Council is able to calculate the "headroom" available which is the gap between the HRA debt ceiling set by the Government when the HRA reforms were introduced. This is shown in the table below:

HRA "Headroom" calculation	**£000**
Housing Revenue Account – Debt Ceiling	112,350
Housing Revenue Account CFR 31 March	99,505
Headroom at 31 March 2013 =	**12,845**

The above table shows that the Council's HRA has a headroom figure of £12.845m at 31 March 2013.

How the CFR is funded.
As mentioned above the CFR is the Council's underlying need to borrow to finance capital expenditure. To finance the CFR the Council utilises external borrowing, finance leases and its own reserves and balances. The position as at 31 March 2013 is as follows:

	£000
Capital Financing Requirement 31 March 2013	115,840
Financed from	
External Borrowing via PWLB	107,100
External Borrowing via Leasing arrangements	173
Use of internal balances and reserves	8,567
Total Financing of CFR	**115,840**

The table above shows that the Council is effectively under borrowing by £8.6m at 31 March 2013. This means that no debt charges are being incurred on £8.6m of borrowing but also means that the £8.6m is not invested in the money market. However, the cost of borrowing from the PWLB would incur interest charges that are higher than the investment interest foregone.

PWLB Borrowing
The Council's total outstanding PWLB debt amounted to £107,100,000 at 1 April 2012. During 2012/13 no principal repayments were made nor were any new loans taken out with the PWLB. The profile of the outstanding debt is analysed as follows:

PWLB BORROWING Term	**Maturity Profile 31 March 2012 £**	**Maturity Profile 31 March 2013 £**
12 Months	0	2,000,000
1 - 2 years	3,000,000	1,000,000
2 - 5 years	2,000,000	2,000,000
5 - 10 years	12,700,000	12,700,000
Over 10 year	89,400,000	89,400,000
Total PWLB Debt	**107,100,000**	**107,100,000**

PWLB Interest
The interest cost to the Council of the PWLB debt for 2012/13 is £3,696,450. The cost is split within the accounts between the HRA and General Fund based on the level of debt outstanding.

Temporary Borrowing

Cash flow monitoring and management serves to identify the need for short term borrowing to cover delays in the receipt of income during the course of the year. During 2012/13 no short term borrowing was undertaken by the Council and therefore no interest charges were incurred.

Temporary Investments

The table below details the short term investments made at various times during the year of 2012/13. Please note the Iceland investment is not included in the table below:

Bank Name	Amount Invested 2012/13 £000	Amount Returned 2012/13 £000	Balance Invested 31 March 13 £000
Santander	3,200	(3,200)	0
Bank of Scotland	32,500	(27,600)	4,900
Money Market Funds	31,350	(31,150)	200
Total	**67,050**	**(61,950)**	**5,100**

From the table above it can be seen that the balance invested by the Council at 31 March 2013 is £5.1m. Interest earned from temporary investments during 2012/13 amounted to £33,932.45.

Iceland Investment update

The Council invested £2m in the Icelandic bank Landsbanki on 18 December 2007 and a further £1m in the same bank on 16 May 2008. In October 2008 the Icelandic banking system collapsed and the Landsbanki bank along with others went into administration. Since then the Association of District Councils have undertaken action on behalf of the UK Councils to recover the funds for all UK Councils who had invested in Iceland. The Council qualifies as a priority creditor and as such is expected to see the return of the full investment plus interest in due course. To date the Council has received payments that equate to 49.65% of the principal and interest due and the remaining 50.35% is currently anticipated to be received in instalments over the next 7 years (2013 to 2019).

Overnight Balances

The balance of any daily funds is retained in the Council's general account with the Co-Operative Bank. Following the Treasury Management advice received from Sector, officers aim to minimise the balance retained in this account each day. No interest is received on the balances held in this account.

Compliance with Treasury Limits

During the financial year the Council continued to operate within the treasury limits set out in the Council's Borrowing and Investment Strategy.

	Actual in year 2012/13 £000	Set Limits 2012/13 £000
Authorised Limit (total Council external borrowing limit)	117,008	125,426
Operational Boundary	112,008	120,426