

**BDC Treasury Management****Activity 2013/14****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 2013/14 and the actual outturn CFR are shown in the table below: -

	<b>Revised Budget 2013/14 £000</b>	<b>Actual Outturn 2013/14 £000</b>
Capital Financing Requirement 1 April	115,840	115,840
Prudential Borrowing General Fund	609	0
Prudential Borrowing HRA	0	0
Leasing Repayments	(66)	(66)
Minimum Revenue Provision (MRP)	(529)	(529)
Movement on other debt – retentions	0	(112)
HRA Debt Repayment per business plan	(2,000)	(2,000)
Repayment of Allowable Debt (HRA)	0	(556)
Debt Repayment – General Fund	(4,908)	(3,010)
<b>Capital Financing Requirement 31 March 2014</b>	<b>108,946</b>	<b>109,567</b>

The overall outturn position shows a net reduction of outstanding debt of £6.273m in 2013/14. This is lower than anticipated in the revised budgets due to the lower level of actual capital receipts being available to repay the Project Horizon debt incurred during 2012/13. This debt will now be fully repaid during the 2014/15 financial year.

The capital financing applied in 2013/14 has meant that no new prudential borrowing has been undertaken by the Council in 2013/14.

The repayment of outstanding debt from the Sale of Council House receipts is the Allowable Debt sum of £0.556m. Under the current regulations 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:

<b>Capital Financing Requirement at 31 March 2014</b>	<b>£000</b>
General Fund	12,617
Housing Revenue Account	96,950
<b>Total CFR</b>	<b>109,567</b>

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

<b>HRA “Headroom” calculation</b>	<b>£000</b>
Housing Revenue Account – Debt Limit	112,350
Housing Revenue Account CFR 31 March 2014	96,950
<b>Headroom at 31 March 2014 =</b>	<b>15,400</b>

The above table shows that the Council’s HRA has a headroom figure of £15.400m at 31 March 2014.

#### **How the CFR is covered.**

As mentioned above the CFR is the Council’s underlying need to borrow to finance capital expenditure. To finance the CFR the Council has external borrowing, finance leases and the use of its own reserves and balances. The position as at 31 March 2014 is as follows:

	<b>£000</b>
Capital Financing Requirement 31 March 2014	109,567
Financed from:	
External Borrowing via PWLB	105,100
External Borrowing via Leasing arrangements	107
Use of internal balances and reserves	4,360
<b>Total Financing of CFR</b>	<b>109,567</b>

The table above shows that the Council is effectively under borrowing by £4.3m at 31 March 2014. This means that no debt charges are being incurred on £4.3m of borrowing but also means that this sum is not available for investing 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 2013. During 2013/14 £2,000,000 principal repayments were made. No new loans have been taken out with the PWLB during 2013/14. The profile of the outstanding debt is analysed as follows: -

<b>PWLB BORROWING</b>	<b>Maturity Profile 31 March 2013 £</b>	<b>Maturity Profile 31 March 2014 £</b>
<b>Term</b>		
12 Months	2,000,000	1,000,000
1 - 2 years	1,000,000	1,000,000
2 - 5 years	2,000,000	1,000,000
5 - 10 years	12,700,000	16,100,000
Over 10 year	89,400,000	86,000,000
<b>Total PWLB Debt</b>	<b>107,100,000</b>	<b>105,100,000</b>

#### **PWLB Interest**

The interest cost to the Council of the PWLB debt for 2013/14 is £3,687,647.00. The cost is split within the accounts between the HRA and General Fund based on the level of debt outstanding within the CFR.

### 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 2013/14 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 2013/14. Please note the Iceland investment is not included in the table below:

<b>Bank Name</b>	<b>Amount Invested 2013/14 £000</b>	<b>Amount Returned 2013/14 £000</b>	<b>Balance Invested 31 March 14 £000</b>
Bank of Scotland	4,900	0	4,900
Barclays	5,000	0	5,000
Nat West	4,520	0	4,520
Money Market funds	62,680	(60,690)	1,990
<b>Total</b>	<b>77,100</b>	<b>(60,690)</b>	<b>16,410</b>

From the table above it can be seen that the balance invested by the Council at 31 March 2014 is £16.410m. Interest earned from temporary investments during 2013/14 amounted to £67,487 and is detailed in the table below:

<b>Bank Name</b>	<b>Amount Received</b>
Nat West Bank	(2,472)
Bank of Scotland	(32,634)
Barclays	(12,932)
Money Market Funds	(19,449)
<b>Total</b>	<b>(67,487)</b>

### Iceland Investment update

The Council invested £2m in the Icelandic bank Landsbanki Islands (LBI) 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 Islands bank along with other Icelandic financial institutions went into administration. Since then the Local Government Association have co-ordinated action on behalf of the UK Councils to recover the funds for those Councils which had invested in Iceland. The Council qualified as a priority creditor and as such was expected to see the return of the full investment plus interest in due course.

During 2013/14 an analysis of the available options resulted in the Council taking the decision to sell its investment. This action was managed and coordinated in conjunction with the majority of local authorities holding such investments and on 31

January 2014 the Council sold its claim against the insolvent estate of LBI. The claim was sold through a competitive auction process. The price at which the claim was sold was based on a reserve price set by the Council on the basis of legal advice received from Bevan Brittan and the Council's analysis of the financial position. The sale resulted in the Council recovering 96.5% of the amounts that were originally deposited with LBI in 2008. The Council is now no longer a creditor of LBI and has no further claims outstanding.

### **Overnight Balances**

The balance of any daily funds are 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. 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.

	<b>Actual in year 2013/14 £000</b>	<b>Set Limits in year 2013/14 £000</b>
Authorised Limit (total Council external borrowing limit)	105,430	116,851
Operational Boundary	105,430	111,851