

# Treasury and Capital Update 2012/13

**Cabinet**

**Date: 12<sup>th</sup> June 2013**

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Author: Cabinet Member for Finance  
Board Director, Resources

Wards: All

Locality Affected: All

Parishes Affected: All

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## **1. Purpose and Reasons**

- 1.1 This report sets out the Treasury Management performance for 2012/13 and some recommended amendments to the Prudential Indicators.

## **2. Recommendations**

Cabinet is recommended to:

- 2.1 Note the 2012/13 Treasury Management performance and Prudential Indicators;
- 2.2 Approve the changes to the Prudential Indicators detailed at paragraph 4.14 and request that the Council approve these at its meeting on 18th July 2013;

## **3. Detail**

### **Treasury Management**

- 3.1 The Council is involved in two types of treasury activity:
- Borrowing for capital purposes and for temporary cash flow purposes
  - Investment of surplus cash.
- 3.2 The activity and performance in respect of each of these two activities is summarised in the sections below.
- 3.3 **Borrowing**
- 3.4 In 2012/13, the sole new borrowing was a loan of £5m for a period of 3 years, which was taken out in May 2012 from Wycombe District Council at a rate of 1.40%.
- 3.5 Long-term loans of £12.53m matured during the year, which were running at an average of 4.03%.
- 3.6 The average rate the Council paid on all debt (both long term and short term) over the whole of 2012/13 was 3.41%. This is a decrease of 0.09% from the previous financial year due to a combination of the maturing loans being at higher rates than the average, and the new loan being well below the average rate.

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Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No.463976, or Email psmith2@swindon.gov.uk.

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- 3.7 Total long term debt has therefore decreased from £242.8m to £235.2m over the year as detailed at Table 1 below.

### Investments

- 3.8 The Council's agreed Treasury Policy states that the Council utilises the creditworthiness service provided by Sector Treasury Services. This service uses credit ratings from the three main ratings agencies as well as overlaying other relevant market data. Sector then recommends a duration that counterparties should be invested with of between 3 months and 2 years. Currently, the Council is limiting investments to any counterparty to a maximum of 1 year in order to minimise risk.
- 3.9 During 2012/13 an average daily investment balance of £56 million was being managed in-house. This balance was sufficient to manage the peaks and troughs of the Council's cash flows and provide the flexibility to choose longer investment periods and take advantage of higher interest rates available. In total, interest of £530k was earned in 2012/13 on these investments at an average rate of 0.85%. (2011/12 was 1.12%.) Over the full year, this rate exceeded the "benchmark" 7-day rate of 0.42%, as well as the 3 month LIBOR rate of 0.69%.
- 3.10 The Council's debt and investment position as at 31 March 2013 is shown in the table below:

**Table 1 - Analysis of Debt and Investments**

Debt & Investments	31/03/2012		31/03/2013	
	£'000	Av. Rate (%)	£'000	Av. Rate (%)
Long Term Debt PWLB	207,815	3.86%	195,276	3.92%
Long Term Debt Market	35,000	1.20%	40,000	2.04%
<b>Total Long Term Debt</b>	<b>242,815</b>	<b>3.48%</b>	<b>235,276</b>	<b>3.63%</b>
<i>Of which HRA</i>	<i>150,532</i>		<i>145,532</i>	
<i>Of which GF</i>	<i>92,283</i>		<i>89,744</i>	
Short-term Borrowing	6,000	0.33%	29,500	0.36%
<b>Total Debt</b>	<b>248,815</b>	<b>3.50%</b>	<b>264,776</b>	<b>3.41%</b>
Investments	(26,325)	1.01%	(25,050)	0.93%
<b>Net Borrowing Position</b>	<b>222,490</b>		<b>239,726</b>	

- 3.11 The Council's Capital Financing Requirement "CFR" represents the estimated future debt position taking into account further borrowing required to fund the existing capital programme approvals. This has increased from £377m to an estimated £407m (subject to final accounts closure). This indicates that there is a

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further long-term borrowing requirement of £172m. The table below compares the CFR with the debt position between the General fund and the Housing Revenue Account (HRA) , and the resulting borrowing requirement.

	<b>GF £k</b>	<b>HRA £k</b>	<b>Total £k</b>
<b>Long Term Debt</b>	89,744	145,532	235,276
<b>CFR</b>	261,468	145,532	407,000 (est)
<b>Further Requirement</b>	171,724	Nil	171,724

### Prudential Indicators (PI's)

- 3.12 In order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, it sets out a basket of indicators that must be prepared and used. It should be noted that the prudential indicators are not for comparison between authorities, but are a means to support and record local decision-making. Prudential Indicator out-turn figures for 2012/13 are contained at Appendix 1.
- 3.13 One of the Prudential Indicators approved at Cabinet on 6<sup>th</sup> February 2013 for the 2013/14 financial year set out the limits in relation to the maturity structure for fixed rate debt (Cabinet Minute 95, 2012/13 refers). The purpose of this is to manage the risk of too much debt needing re-financing in a single period as this would subject the Council to a greater degree of interest rate risk.
- 3.14 As discussed at paragraph 3.11, there is a significant requirement to undertake new long-term borrowing, and it is proposed to amend the maturity structure limits in order to allow a greater proportion of long-term debt be taken beyond 10 years in order to lock into historically low rates for longer. The proposed limits will still ensure that interest rate risk is minimised.
- 3.15 The existing limits compared with the proposed limits are shown in table 2 below.

**Table 2:**

<b>Maturity Structure of fixed interest rate borrowing 2013/14</b>			
	<b>Existing</b>	<b>Existing</b>	<b>Proposed</b>
	Lower Limit	Upper Limit	Upper Limit
< 12 months	0%	15%	15%
12 to 2 years	0%	30%	30%
2 to 5 years	0%	50%	40%
5 to 10 years	0%	50%	40%
10 to 50 years	0%	60%	80%
10 to 50 years	Of which no more than 50% within each 10 year band		

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## **Compliance with Treasury Limits**

- 3.16 During the 2012/13 Financial Year all Treasury activity was carried out within the Council's Treasury limits and Prudential Indicators as set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

## **4. Alternative Options**

- 4.1 Any alternative options for specific areas are set out within the report.

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

### Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no other direct implications.

### Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

### Diversity Impact Assessment

- 5.5 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would have a detrimental impact on services.

## **6. Consultees**

- 6.1 The Board Director Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

## **7. Background Papers and Appendices**

- 7.1 Appendix 1 – Prudential Indicators 2012/13

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### **8. Key Decision/Decision in Forward Plan**

- 8.1 This is a Key Decision and is included in the Cabinet Work Programme / Forward Plan for June 2013.