Report to the Council

Committee:	Cabinet	**Date:**	26 July 2011
Portfolio Holder:	Councillor Gagan Mohindra (Finance & Economic Development)	**Item:**	**11**

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1. COUNCIL'S TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011/12 TO 2013/14

Recommending:

That the amended 2011/12 Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14 including amended Treasury Management Prudential Indicators attached to this report be approved.

Background

1. The Council's treasury activities are strictly regulated by statutory provisions and a professional code of practice. There is a requirement for the Council to approve its treasury and investment strategy and prudential indicators each year.

2. The Council approved the Treasury Management Strategy and Investment Strategy for 2011/12 and the Prudential Indicators for 2011/12 to 2013/14 in February 2011 as part of the budget process.

3. However, following the Government announcement to proceed with the Housing Self Financing through the Localism Bill, there is a need to amend the strategy and prudential indicators.

Reason for the Change to the Approved Strategy

4. The Council has been debt free since 2004 and the original strategy approved in February 2011 advised that there was no need to borrow in order to finance the Council's capital programme. The previous Government announced an intention to review the current Housing Subsidy System with a view to dismantling it and to offer councils the possibility to buy themselves out of the subsidy system. The current Government is proceeding with this proposal and as part of the Localism Bill from April 2012 the subsidy system will be dismantled and a self-financing regime will start. This will result in the Council needing to pay the Department of Communities and Local Government approximately £200M to buy itself out of the subsidy system.

5. Officers have had discussions with Arlingclose, the Council's treasury advisors, who have advised that the Treasury Strategy needs to be updated to allow the Council the powers to borrow the amount required during the current financial year.

Capital Financing Requirement (CFR)

6. The Council's estimated total CFR will change from March 2012 onwards to reflect the need to pay the Department of Communities and Local Government approximately £200M.

	31/02/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
Total CFR				
Original Strategy	-0.784	-0.784	-0.784	-0.784
Amended Strategy	-0.784	179.216	179.216	179.216
Cumulative Net Borrowing Requirement / (Investments)				
Original Strategy	-50.784	-47.784	-43.784	-37.784
Amended Strategy	-50.784	132.216	136.216	142.216

Ratio of Financing Costs to Net Revenue Stream

7. This looks at the affordability of financing costs to the Council's net revenue stream and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet borrowing costs. This will change due to the increase in financing costs from the interest payments due on the loan.

	31/02/2011 Estimate %	31/03/2012 Estimate %	31/03/2013 Estimate %	31/03/2014 Estimate %
General Fund				
Original Strategy	-1.67	-2.01	-3.40	-4.36
Amended Strategy	-1.67	0.54	3.99	6.03
HRA				
Original Strategy	-1.73	-2.05	-3.47	-4.45
Amended Strategy	-1.73	-4.59	30.49	27.98

External Debt

8. The Council's Authorised Limit sets the maximum level of external borrowing on a gross basis and is the statutory limit determined under Section 3(1) of the Local Government Act 2003. The Operation Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worse case scenario but without the additional headroom included within the Authorised Limit.

	31/02/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
Authorised Limit				
Original Strategy	5.0	5.0	5.0	5.0
Amended Strategy	5.0	200.0	200.0	200.0
Operational Boundary				
Original Strategy	0.5	0.5	0.5	0.5
Amended Strategy	0.5	181.0	181.0	181.0

Interest Rate Exposure

9. There has been no change in the way in which the Council wishes to manage the extent to which it is exposed to changes in interest rates. It should be noted that these rates are now for both investments and borrowing rates.

Maturity Structure of Fixed Rate Borrowing

10. This indicator monitors and limits the concentration of fixed rate debt needing to be replaced at the same time, spreading the risk to excessive exposures to volatility in interest rates when refinancing maturing debt. The Council's original strategy had no borrowing over 12 months, in line with the Council decision to remain debt free. However, under Housing Revenue Account self-financing, the Council will need to borrow and will need to set limits going forward over 12 months. As we are still to determine the exact composition of the debt, the amended strategy proposes to have an upper limit of 100% on each of the duration periods.

11. Although the Minimum Revenue Provision will not change in the strategy, when we undertake the 2012/13 strategy this will need to be changed accordingly.

Resource Implications

12. The Department of Communities and Local Government proposal states that these reforms only have implications for each stock-retaining local authority's ring-fenced Housing Revenue Account, and will not impact on their general finances.

13. This Council is a debt free authority with a negative overall Capital Financing Requirement (CFR), however, the Council does have a positive General Fund CFR of approximately £38M. The impact on the general fund could result in a substantial increase in the cost to the General Fund through Minimum Revenue Provision (MRP) payments of £1.5M and an increase in interest payments of £1.6M.

14. There are indications that mitigation will be put in place so that where an authority has no current requirement to make MRP on its General Fund it will not be required to make MRP as a consequence of self-financing. However, until the detailed regulations are published the effect of any mitigation on both risks cannot be assessed.

15. Currently, the interest payment for the borrowing between the Housing Revenue Account and the General Fund is based on the average rate of return on investment. It is generally agreed that the average rate of borrowing will be higher than the average rate on investment, resulting in potential increase in interest charges to the General Fund.

Recommendation

16. We have taken account of the advice received and recommend as set out at the commencement of this report.