Leeds CITY COUNCIL

Report author: B Chana

Tel: 51332

Report of Director of Resources

Report to Executive Board

Date: 17th July 2013

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2012/13

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☑ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☑ No
Is the decision eligible for Call-In?	☑ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☑ No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2012/13.

2. This report shows that net external debt at 31st March 2013 was £1,446m, £28m below the February 2013 forecast. This movement is due to £19m short-term temporary fluctuations in year-end balances and £9m slippage in the general fund borrowing requirement of the capital programme. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.4bn as at 31st March 2013 (unaudited accounts).

3. The level of debt has remained within the Authorised limit for external debt as approved by the Council in February 2013. Treasury management strategy has resulted in no breach of its prudential indicators and all of these prudential indicators are within normal tolerance levels of treasury management.

4. Debt savings of £11.0m have generated against the original budget. These savings have been generated from a combination of: the net impact of savings on General Fund by fully funding the HRA financing requirement; continuing to take advantage of exceptionally low short term borrowing rates and the use of balances; and capitalisation of interest costs of assets under construction.

5. The average rate of interest paid on the Council's external debt has reduced to 4.02% for 2012/13 compared to 4.05% for 2011/12.

Recommendations

6. That Executive Board note the Treasury Management outturn position for 2012/13 and that treasury strategy has remained within the treasury management strategy and policy framework.

1 Purpose of this report

1.1 This report provides members with a final update on treasury management strategy and operations in 2012/13.

2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

3 Main Issues

3.1 Review of Strategy 2012/13

3.1.1 Table 1, below shows that net borrowing in 2012/13 was £1,446m, £28m below the February 2013 position. This movement is due to £19m of short–term temporary movements in year-end revenue balances and slippage in the general fund capital programme borrowing requirement of £9m. The Capital programme outurn position was reported in section 6 of the June Financial Performance- Outturn Report to Executive Board. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.4bn as at 31st March 2013 (unaudited accounts).

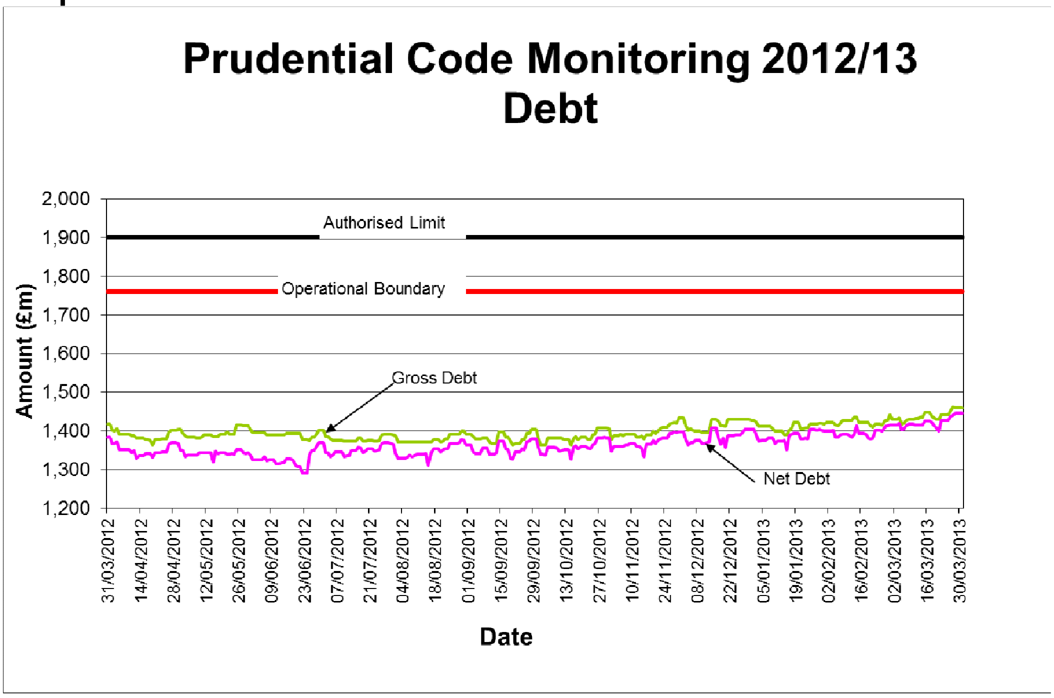
TABLE 1

ANALYSIS OF BORROWING 2012/13	2012/13 Nov 12 Report £m	2012/13 Feb 13 Report £m	2012/13 This Report £m
Net Borrowing at 1 April	1,385	1,385	**1,385**
New Borrowing for the Capital Programme – Non HRA	120	132	**122**
New Borrowing for the Capital Programme – HRA	0	**0**	**0**
Debt redemption costs charged to Revenue (Incl HRA)	(39)	**(40)**	**(41)**
Reduced/(Increased) level of Revenue Balances	49	**(3)**	**(20)**
Net Borrowing at 31 March*	1,515	1,474	1,446
Capital Financing Requirement**			**1,702**
Other long term liabilities capital financing requirement			**490**
* Comprised as follows			
Long term Fixed**	1,260	1,154	1,316
Variable (less than 1 Year)	25	20	0
New Borrowing	129	89	44
Short term Borrowing	112	111	100
Total External Borrowing	1,526	1,374	1,460
Less Investments	11	12	14
Net External Borrowing	**1,515**	**1,362**	**1,446**
% borrowing funded by short term and variable rate loans	17%	16%	10%

****Note:** The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.2 Graph 1, below shows the level of debt during 2012/13 compared with the prudential limits in operation during the year. The authorised limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2012/13. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the authorised limit from being breached. Treasury management strategy has resulted in no breach of its prudential indicators which are detailed in Appendix A. All of these prudential indicators are within normal tolerance levels of treasury management.

Graph 1



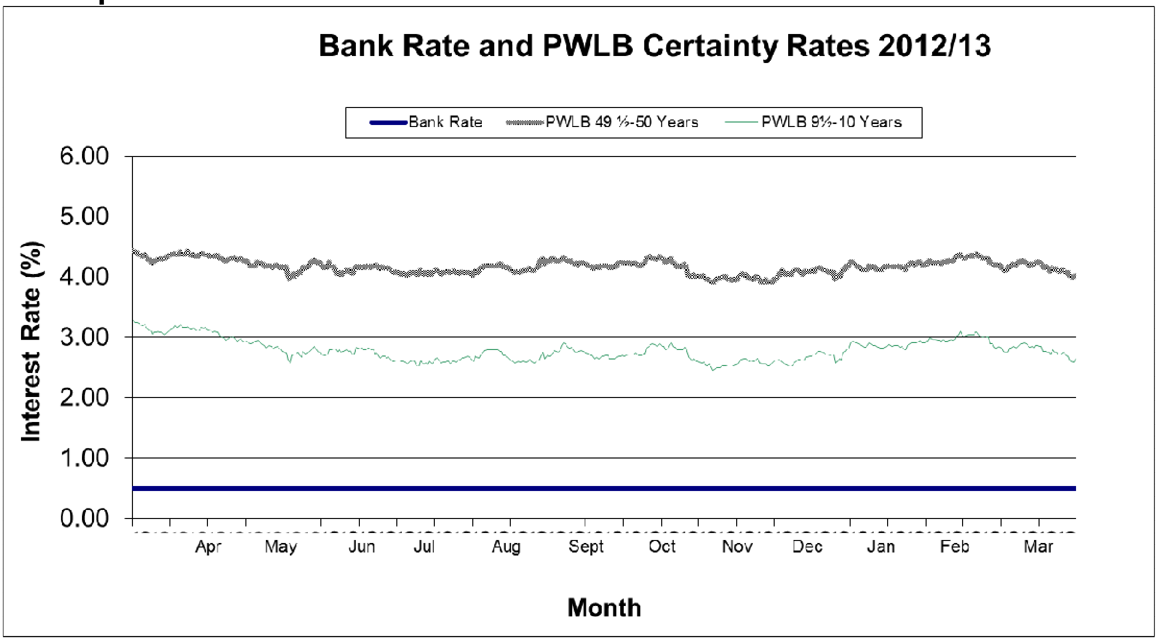
3.1.3 Since the economic update to Members in February, in the Treasury Management Strategy 2013/14, the economy has continued with mixed signals. The key points to the quarter ending 31st March 2013 are:

- Indicators suggest that the economy was very near to a second consecutive quarter of negative growth in GDP;
- Household spending strengthened, both on and off the high-street;
- Unemployment rose for the first time for a year;
- Inflation remained above the MPC's 2% target;
- Three of nine members of the MPC voted for further Quantitative Easing;
- UK equity prices rose and sterling fell against the major currencies;
- The US economic recovery gathered pace.

3.1.4 The UK economy grew by 0.3% but there remains considerable uncertainty as to whether this can be sustained. Internationally, the economic recovery in the US appeared to gather momentum over the first quarter 2013 with annualised GDP growth of close to 3%. Furthermore, the growth in US private jobs accelerated to a 3-month average of 200,000 net new recruits in February. The Eurozone crisis flared up again at the end of the quarter, after it was agreed that bank deposits could be subject to a "haircut" as part of an international bail-out package for Cyprus. While a bailout package agreed by European Finance Ministers should avert disaster, the episode has raised fears about the safety of bank deposits in other periphery countries. Meanwhile, the underlying Eurozone economy remains weak and points to a 0.3% quarterly contraction of GDP in Q1.

3.1.5 Graph 2 below shows the movement of selected PWLB interest rates. The 49½ - 50 year rate started the year at 4.43% (9½ - 10 year at 3.28%) and has fallen to 4.02% (9½ - 10 year at 2.64%). The graph also shows how the bank rate remained at an all time low of 0.50% throughout the entire year.

Graph 2



3.1.6 Debt savings of £11m were reported in the Revenue Outturn report to Executive Board on 19th June 2013. The HRA self-financing scheme has provided the opportunity to fully fund the HRA requirement with a net impact on the General Fund of savings of £5.2m, although General Fund will bear more of the risk associated with rising interest rates. Savings of £3.6m have been generated by continuing to fund the capital programme requirement from historic low short term rates and internal resources and balances. A further £2.2m savings have been identified from the capitalisation of interest costs of assets under construction which enables costs to be matched to the use of an asset.

3.1.7 Table 2 shows £55m of longer term funding was secured during the year. Market opportunities have enabled 3 further loans to be taken since the last strategy update. At the year-end there was a funding requirement of £145m, relating to previous years, to lock in when market conditions allow. This requirement is being funded by short term borrowing at low rates and reserves, with the option to lock in long term debt at advantageous rates as market opportunities arise.

Table 2

Long term borrowing and Rescheduling 2012/13								
Premature repayments					New Replacement Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Premium / (Discount) (£m)	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB								
	None				11/05/2012	10	10.0	2.95
					21/05/2012	10	10.0	2.90
					28/02/2013	10	13.5	3.38
					28/02/2013	10	15.5	3.57
Sub Total	**0**			**0.000**		**40**		
LOBO's (Call Date)								
	None				20/04/2012	5	22.5	3.95
					01/02/2013	10	4.0	1.43
Sub Total	**0**			**0**		**15**		
Total	**0**			**0.000**		**55**		

3.1.8 Table 2 also shows that no market loans were called during the entire year. These market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allow the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty.

3.2 Interest Rate Performance and Average Maturity Profile

3.2.1 The average rate of interest paid on the Council's external debt is shown in Table 3. The average interest rate in 2011/12 was one of the lowest of all Metropolitan Councils as shown in Appendix B

Table 3

Year	Average Borrowing Rate
2012/13	4.02%
2011/12	4.05%
2010/11	4.15%
2009/10	4.05%
2008/09	4.35%
2007/08	4.51%
2006/07	4.78%
2005/06	5.35%
2004/05	5.67%

3.2.2 Whilst the average borrowing rate has continued to fall it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 36.36 years. The average length of all loans to the next option date including temporary loans is 20.07 years. This provides a large degree of funding certainty within the overall debt portfolio. . Appendix C analyses debt as at 31st March 2012 by interest rate bands and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix C.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme update elsewhere on this agenda.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality diversity cohesion and integration issues.

4.3 Council Policies and City Priorities

4.3.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Council's business plan.

4.4 Resources and Value for Money

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.4.2 Debt savings of £11.0m against the budget have been delivered.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

4.6 Risk Management

4.6.1 This report sets out the performance against the 2012/13 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Councils Revenue position to Executive Board.
- Quarterly strategy meeting with the Director of Resources and the Council's treasury advisors
- Regular market, economic and financial instrument updates and access to real time market information

4.6.2 As previously reported the HRA self-financing scheme, which was introduced on 1st April 2012, has provided the opportunity to fully fund the HRA financing requirement from current long term funds held by the Council. The net impact on General Fund is a saving of £5.2m although General Fund will bear more of the risk associated with rising interest rates in the future.

5 Conclusions

5.1 This Treasury Management Outturn Report for 2012/13 details the transactions undertaken in 2012/13 to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in significant savings to the revenue budget.

6 Recommendations

Executive Board are asked to note:

6.1 The Treasury Management outturn position for 2012/13 and that treasury strategy has remained within the treasury management strategy and policy framework.

7 Background documents [1]

None

[1] The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix A

Leeds City Council - Prudential Indicators 2012/13

No.	PRUDENTIAL INDICATOR	Feb 12 Report	Feb 13 Report	Outturn (This Report)
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS			
	Ratio of Financing Costs to Net Revenue Stream			
1	General Fund - Excluding DSG (Note1)	12.25%	11.02%	10.40%
2	HRA	12.57%	15.20%	16.66%
	Impact of Unsupported Borrowing on Council Tax & Housing Rents	**£ . P**	**£ . P**	£ . P
3	increase in council tax B7(band D, per annum) (Note 2)	48.94	13.49	13.68
4	increase in housing rent per week	-	-	-
5	**Net Borrowing and the capital financing requirement (Note 3)**	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**
6	Non HRA	194,909	195,849	177,555
7	HRA	66,140	60,984	56,631
	TOTAL	261,049	256,833	234,186
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**
8	Non HRA	1,538,558	1,550,349	1,543,808
9	HRA	719,654	691,364	688,562
	TOTAL	2,258,212	2,241,713	2,232,370
9a	**Limit on HRA Indebtedness as implementated under self financing**	n/a	726,155	726,155

No.	PRUDENTIAL INDICATOR	2012/13	2012/13	2012/13
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 4)**			
	borrowing	1,900,000	1,900,000	1,900,000
	other long term liabilities	600,000	600,000	600,000
	TOTAL	2,500,000	2,500,000	2,500,000
11	**Operational boundary - (Note 4)**			
	borrowing	1,760,000	1,760,000	1,760,000
	other long term liabilities	565,000	565,000	565,000
	TOTAL	2,325,000	2,325,000	2,325,000
14	**Upper limit for fixed interest rate exposure**			
	expressed as either:-			
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	**Upper limit for variable rate exposure**			
	expressed as either:-			
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
		£'000	£'000	£'000
17	**Upper limit for total principal sums invested for over 364 days (Note 5)**	150,000	150,000	150,000
	(per maturity date)			
18	**Net Debt as a Percentage of gross Debt**	n/a	99.71%	99.05%

16	Maturity structure of fixed rate borrowing 2012/13	Upper Limit	Upper Limit	Actual 31/03/13
	under 12 months	15%	15%	2.0%
	12 months and within 24 months	20%	20%	9.3%
	24 months and within 5 years	35%	35%	17.1%
	5 years and within 10 years	40%	40%	13.1%
	10 years and above	90%	90%	58.5%
				100.0%

otes.

1 **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.**

2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

3 **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**

4 **Limits are the same as the Feb 11 report.**

5 **Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.**

6 **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, as revised in 2009 and 2011.**

				Appendix B
Authority Name	**Rank**	**Previously**	**Total Debt at 31.03.12**	**Gross Average Rate of Interest on All External Debt**
			£'000	%
Sunderland	1	2	217,580	3.36
Leeds	2	3	1,416,952	4.05
Barnsley	3	5	556,825	4.15
Liverpool	4	4	346,776	4.17
Newcastle upon Tyne	5	7	655,687	4.22
Sefton	6	9	..	4.51
Bury	7	11	205,622	4.56
Wolverhampton	8	10	478,002	4.57
Manchester	9	6	488,374	4.70
Rotherham	10	17	494,640	4.72
South Tyneside	11	NR	463,946	4.75
Average of Met Districts				4.92
North Tyneside	12	16	446,111	4.99
Solihull	13	15	222,766	5.00
Sandwell	14	12	563,421	5.01
Doncaster	15	NR	367,317	5.23
Trafford	16	25	100,744	5.26
Wirral	17	26	264,309	5.29
Kirklees	18	18	501,783	5.36
Wakefield	19	23	200,287	5.73
Dudley	20	24	753,943	5.78
Oldham	21	19	148,438	5.99
Sheffield	22	22	591,011	6.05
St Helens	23	20	73,378	6.12
Wigan	24	27	461,235	6.94
Salford	NR	1	..	..
Stockport	NR	8	..	..
Gateshead	NR	14	..	..
Birmingham	NR	21	..	..
Bolton	NR	NR	..	..
Bradford	NR	NR	..	..
Calderdale	NR	NR	..	..
Coventry	NR	NR	..	..
Knowsley	NR	NR	..	..
Rochdale	NR	NR	..	..
Tameside	NR	NR	..	..
Walsall	NR	NR	..	..

Source: CIPFA Capital Expenditure and Treasury Management Statistics 2011-12

Debt as at 31st March 2013 — Appendix C

Table below shows a breakdown of the maturity structure of the authority giving totals within interest

Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
Fixed Rate Loans - LOBO to First Option						
2014	10,000	-	28,218	115,000	-	153,218
2015	-	-	35,000	75,000	-	110,000
2016	-	8,812	25,000	85,000	-	118,812
2017	10,000	8,812	25,000	20,000	-	63,812
2018	-	-	10,000	10,000	-	20,000
2019	-	-	46,436	-	-	46,436
2020	-	-	26,436	-	-	26,436
2021	-	-	8,812	-		8,812
2022	-	-	36,436	-	-	36,436
2023	-	20,000	17,624	-	-	37,624
2024	-	-	-	26,436	-	26,436
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	18,812	-	-	18,812
2028	-	-	-	-	-	-
2029	-	-	10,000	-	-	10,000
2034	-	-	-	-	-	-
2035	-	-	5,000	-	-	5,000
2049	-	-	-	-	-	-
2050	-	-	-	-	-	-
2051	-	-	-	-	-	-
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	-	75,782	-	75,782
2056	-	-	-	67,173	-	67,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	-	-	-	-	-
2060	-	-	-	-	-	-
2061	-	-	-	17,624	-	17,624
2062	-	-	17,624	-	-	17,624
Sub Total	**20,000**	**37,624**	**310,396**	**933,137**	**14,099**	**1,315,256**
Temporary Loans						
2014	144,900	-	-	-	-	144,900
Sub Total	**144,900**	**-**	**-**	**-**	**-**	**144,900**
CABP	**164,900**	**37,624**	**310,396**	**933,137**	**14,099**	**1,460,156**
Memo : LOBO Variable Rate Loans to Maturity						
2047	-	-	10,000	-	-	10,000
2055	-	-	5,000	15,000	-	20,000
2056	-	-	10,000	50,000	-	60,000
2066	-	-	10,000	45,000	-	55,000
2067	-	-	55,000	20,000	-	75,000
2077	-	-	50,000	15,000	-	65,000
2078	-	-	-	140,000	-	140,000
2079	-	-	-	20,000	-	20,000
Sub Total	**-**	**-**	**140,000**	**305,000**	**-**	**445,000**

LOBO's Shown at Maturity in Bottom Memo Section.
LOBO's included in main section at next option date. (Highlighted)