

CABINET

12 FEBRUARY 2013

TREASURY MANAGEMENT STRATEGY 2013/2014

Portfolio Holder: Councillor Jarrett, Finance
Report from: Mick Hayward, Chief Finance Officer
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Summary

This report sets out the views of the Business Support Overview and Scrutiny Committee following its consideration of the Treasury Management Strategy 2013/2014 on 7 February 2013.

1 Background

- 1.1 The Finance Support Manager introduced the report advising that there were only a few changes from last year's strategy and that the council would continue with the careful policy approach to reduce investments and pay off debt when economically opportune.
- 1.2 The committee was also advised of an amended Appendix 3 to the report which had corrected some incorrect information and changed the upper limit percentage of fixed rate borrowing under 12 months from 50% to 75%, following a recent change in practice by CIPFA, whereby loans should be recorded within time profiles as repayable at the earliest "call" date rather than continuing to full term.
- 1.3 Members discussed the report and asked, if the UK lost its AAA credit rating, what this might mean financially for Medway. Officers advised that there were two schools of thought on this. Firstly, where the United States and France had recently been downgraded from AAA, there had been no discernable impact and therefore it could be assumed the same would occur if the UK lost its AAA status. The second view was that if downgraded, the UK might no longer be seen as a safe haven for investors, which could result in investors demanding greater yields on gilts, thereby increasing the cost of borrowing for the UK government. This increase would make borrowing more expensive for Local Government and potentially it might also

cause an increase in general interest rates. As Medway was not planning to borrow in the foreseeable future and all the council's loans were on fixed rate interest, an increase in borrowing rates would not affect the council. If general interest rates increased, giving a better return on investment, then this would benefit Medway. Therefore it was likely that there would either be no impact or a marginal benefit.

- 1.4 The committee thanked officers for the positive strategy and excellent management of the council's financial investments and congratulated the Finance Support Manager on his team's successful work.
- 1.5 The committee agreed to endorse the Treasury Management Strategy 2013/2014 and forward it for recommendation by Cabinet on 12 February 2013.

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APPENDIX 3

Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	2013/2014	2014/2015	2015/2016
Extract from budget and rent setting report	estimate	estimate	estimate
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	27,566	4,561	750
HRA	5,000	5,000	5,000
TOTAL	32,566	9,561	5,750
Ratio of financing costs to net revenue stream			
Non - HRA	2.99%	2.83%	2.85%
HRA	17.94%	18.43%	17.78%
Gross borrowing requirement			
brought forward 1 April	172,325	162,324	162,324
carried forward 31 March	162,324	162,324	162,324
in year borrowing requirement	(10,001)	0	0
Capital Financing Requirement as at 31 March			
Non – HRA	209,770	207,404	206,721
HRA	39,516	38,726	37,951
TOTAL	249,286	246,120	244,672
Annual change in Cap. Financing Requirement			
Non – HRA	(2,035)	(2,376)	(673)
HRA	(806)	(790)	(775)
TOTAL	(2,841)	(3,167)	(1,448)
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	3.87	(7.54)	0.60
Increase in average housing rent per week	0.46	0.92	(0.10)

TREASURY MANAGEMENT INDICATORS	2013/2014	2014/2015	2015/2016
	estimate	estimate	estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
Borrowing	431,515	425,832	422,039
other long term liabilities	4,400	4,400	4,400
TOTAL	435,915	430,232	426,439
Operational Boundary for external debt -			
borrowing	392,286	387,120	383,672
other long term liabilities	4,000	4,000	4,000
TOTAL	396,286	391,120	387,672
Actual external debt	165,497	165,447	165,447
HRA Maximum CFR Debt Limit	45,846	45,846	45,846
Upper limit for fixed interest rate exposure			
Principal fixed rate borrowing and investments	100%	100%	100%
Upper limit for variable rate exposure			
Principal variable rate borrowing and investments	40%	40%	40%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£150,000	£150,000	£150,000

Maturity structure of fixed rate borrowing during 2013/2014	upper limit	lower limit
under 12 months	75%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%