SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Finance and Staffing Portfolio Holder	15 November 2011
AUTHOR/S:	Executive Director Corporate Services	

REVISED 2011/12 TREASURY MANAGEMENT STRATEGY

Purpose

1. To provide the portfolio holder with an update on progress with the development of an updated Treasury Management Strategy (TMS) for 2011/12.

2. This is not a key decision and has been brought before the portfolio holder for information and it was first published in the August 2011 Forward Plan.

Recommendation

3. That the report be noted.

Reasons for Recommendations

4. Council in February 2012 will be invited to approve a revised TMS reflecting the major changes to the financing regime for the Housing Revenue Account. Given the significance of the project for the Council, regular progress reports aim to provide assurance that the relevant milestones will be achieved.

Background

5. The Council will be required to pay more than £200 million to the Government on the 28 March 2012 as the price for exiting the current housing finance system. The officer project team has been investigating a number of options for raising the finance including:

   (a) The Council's own resources (balances)
   (b) Borrowing from other local authorities
   (c) Borrowing from the Public Works Loans Board (PWLB)
   (d) Borrowing on the money market
   (e) A bond issue through either a public or private placement

6. While utilising the Council's own balances is likely to be the most cost effective source of finance there is not sufficient quantum of cash available to finance this transaction, so this can only be a partial solution. Likewise it appears that direct borrowing from other local authorities or the money markets will not be a long-term solution as funds are unlikely to be available in the quantity or the periods necessary to fund the business plan on a long term basis.

7. The Council could issue a bond, or bonds, in its own name through retail, public or private placements:

(a) Retail bonds are a relatively new phenomenon and offer a direct route for the public to invest in corporate bonds. To date no local authorities have used this route for raising capital although a major housing association has successfully used this market to raise funds. At this stage the borrowing costs are higher than the alternatives but this may be a route the Council would want to explore once the market matures.

(b) Public and private bonds are attractive to pension funds and insurance companies. Whereas a private placement is a bilateral negotiation, a public placement would entail the Council obtaining a credit rating, drawing up the relevant specialist legal documentation and securing the services of a number of financial institutions (or book-runners) to market the bonds and manage their ongoing trading positions. The initial costs of a bond placement are likely to be up to £450,000, to which must be added the ongoing costs of maintaining the Council's credit rating (circa £20,000 per annum). For a local authority with a good credit rating it is anticipated that effective interest charge would be around 0.8% above gilt rates (see below).

8. The Public Works Loans Board is in reality an integral part of the Government's Debt Management Office and offers a ready supply of loan finance to local authorities to meet their prudential borrowing requirements. Funds can be borrowed on a range of terms at both variable and fixed rates of interest at periods of up to 50 years. The interest rates chargeable are set in line with the cost (or yield) of equivalent Government bonds (more properly called gilts). Under their current rules, the PWLB charge local authorities an additional 1.0% to 1.2% above the prevailing gilt rate for any loans raised through this route.

9. The PWLB, however, is making specific provision to make funds available to local authorities that need to raise loans to fund the HRA settlement. For this purpose only the Government has recently announced that loans raised for this purpose will be charged at a much lower premium to the government's cost of borrowing; this premium is likely to be 0.2% above the prevailing gilt rate.

10. At the request of a number of parish councils, the Portfolio Holder has requested that consideration be given to offering parish councils investment facilities with the Council. To gauge likely demand the Treasury Team have recently circulated a questionnaire to the largest precept raising councils within the area.

Considerations

11. Before the Government's announcement the project team had been recommending that the Council actively consider raising finance through a public bond placement. Cabinet in September 2011 gave approval to the appointment of a specialist financial advisor to lead the Council through this process and it was anticipated that a revised TMS would be presented to Council in November seeking authority to put the arrangements in place for a bond placement.

12. Following the change in Government policy the project team have concluded that the most efficient and flexible source of long term finance will now be to use the PWLB facilities. Given this approach the immediate time pressure to approve a revised TMS is removed.

13. At the same time the project team are currently preparing a thirty year business plan for the HRA. This is also due to be formally reported to Cabinet in February 2012. The postponement of the production of the revised TMS will now allow these two

strategies to be more closely aligned. To assist in this process Ernst and Young have been appointed to develop a TMS options appraisal.

14. It is clear that current long term interest rates are at or near the bottom of the current cycle and are at historically low rates. This trend has been reinforced by the instability in the Eurozone and has been reflected in UK Gilt yields as investors have been attracted to this country as a "safe haven". 30 year PWLB maturity rates have fallen from 5.1% in June this year to just under 4.4% at the date of this report. (See Appendix 1).

15. Particular consideration will be given in the HRA Business plan to the balance of priority given to repaying the debt as against other investment opportunities within the HRA. If the current relatively low costs of borrowing remain available to the Council in the new year a longer term investment strategy may be considered to be attractive in terms of stock remodelling options and even new build.

Implications

16.

Financial	The Council will pay the Government an anticipated £211 million in March 2012, but will then leave the current funding system under which it currently pays over £12 million a year to support housing authorities elsewhere in the country. Securing loan finance on the most advantageous terms is a key objective of the project and will ensure the HRA is able to able to sustain a comprehensive 30 year Business Plan. No provision has been made in the 2011/12 HRA business plan for the costs of raising the loan finance. Council in February will be invited to consider any relevant financial impacts that follow from its decisions then.
Legal	The implementation of the HRA self-financing scheme is subject to Royal Assent being given to the Localism Bill, expected in November 2011, and the issue of relevant regulations by the Secretary of State.
Staffing	No significant implications have been identified other than to support the implementation of the current project.
Risk Management	The current volatility in the money markets is a key risk to the Council's ability to secure loan finance at an affordable level. Working with specialist advisors will help the Council to mitigate that risk to a degree.
Equality and Diversity	No specific equality and diversity issues have been identified.
Equality Impact Assessment completed	No
Climate Change	No implications have identified

Consultations

17. A communication strategy has been developed to inform tenants and other stakeholders of the implications of the self-financing regime. There will be opportunities to take tenants views into account once options are developed further.

18. The parish councils with the largest precepts have been consulted on their likely interest should the Council offer deposit facilities for their surplus funds.

Consultation with Children and Young People

19. No specific consultations have been undertaken with children or young people except as members of the families resident in the affected properties.

Effect on Strategic Aims

20. The establishment of an effective 30 year business plan for the HRA and meeting the funding requirements of it are key contributors to meeting the affordable housing requirements of the District's residents.

Conclusions / Summary

21. There are a number of options to be actively pursued in drafting the Council's new Treasury Management Strategy. The appointment of a specialist advisor will facilitate the development of these options so that Council in February 2012 can make an informed decision on the financing of what is likely to be a more than £200 million settlement payment to the Government.

22. Subject to the interest of parish councils, the Treasury Team will prepare a business case, for consideration by the Portfolio Holder, on the operation of a parish deposit scheme for potential inclusion in the 2012/13 TMS. This is also due to be presented to Cabinet and Council for approval in February 2012.

Background Papers: the following background papers were used in the preparation of this report:

Report to Cabinet 8 September 2011

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