Haringey Council

Report for:	Overview & Scrutiny Committee 22nd January 2013	Item number	

Title:	Treasury Management Strategy Statement 2013/14 – 2015/16

Report authorised by :	J. Parker 11/1/13. Director of Corporate Resources

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Ward(s) affected: N/A	**Report for** Non Key Decision

1. Describe the issue under consideration

1.1 To present the proposed Treasury Management Strategy Statement and Prudential Indicators for 2013/14 to 2015/16 to this Committee for scrutiny before being presented to full Council for approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement and Prudential Indicators for 2013/14 to 2015/16 at Appendix 2 is scrutinised and comments made prior to its presentation to Council for approval.

4. Other options considered

4.1 None.

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5. Background information

5.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

5.2 The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. Corporate Committee is responsible for formulating the strategy and they considered and agreed the proposed Treasury Management Strategy Statement on 29th November 2012. Since November the capital programme has been agreed by Cabinet and so the figures in the strategy have been updated and are being reported back to Corporate Committee on 22nd January 2013. The changes to the figures do not alter the strategy agreed by the Committee.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low. Given the current low short term interest rate environment is expected to continue throughout 2013/14 and beyond, the interest rate risk associated with delaying borrowing is assessed to be low.

7. Head of Legal Services and Legal Implications

7.1 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations. In addition further changes were introduced to the way the Housing Revenue Account is dealt with as a result of the Localism Act 2011. The level of HRA Capital Financing Requirement must remain within the debt cap set by the Department of Communities and Local Government.

7.2 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.

7.3 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). This TMSS was first approved by Corporate Committee on 29 November 2012 but has since been updated and these updates are to go before the Corporate Committee for approval on 22 January 2013.

7.4 In considering the report Members must take into account the expert financial advice available and any further oral advice given at the meeting of the Committee. In particular members should note the change in the perceived creditworthiness of financial institutions with the removal of the short term ratings requirement from the lending list criteria.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Summary of Treasury Management Strategy Statement

11.2 Appendix 2: Draft Treasury Management Strategy Statement 2013/14 – 2015/16.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Proposed Treasury Management Strategy Statement

13.1 The proposed Treasury Management Strategy Statement set out in Appendix 2 was considered by Corporate Committee on 29th November 2012 before being presented to this Committee for scrutiny in advance of being presented to full Council in February 2013 as part of the Financial Planning report for 2013/14 to 2015/16.

13.2 All the figures in this document are based on current plans for the revenue budget and capital programme. This means they are subject to any changes to these plans and, therefore, the statement will be updated for required adjustments before submission to full Council. Any such adjustments are expected to be minor.

13.3 The summary set out in Appendix 1 is to bring to members' attention the key elements of the proposed strategy being considered.

13.4 In 2013/14 a continuation of very low short term interest rates compared to medium and long term rates is expected throughout the year. This means that there will be an on-going "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council plans to continue to run a strategy of keeping cash balances low and invested short term and to borrow only when required.

13.5 As there are loans due to mature during 2013/14, and the Council has already maximised its internal borrowing position, new borrowing will be required. It is proposed that short term loans are taken from other local authorities to maintain liquidity, and that opportunities to obtain PWLB fixed rate loans at reasonable rates are taken as they arise on the advice of the Council's treasury management advisers.

13.6 For the investment strategy, it is proposed that the Council maintains a minimum long term credit rating of A- and continues to restrict investments to the same list of UK banks, building societies, and money market funds as in 2012/13, in addition to the Debt Management Office and other local authorities.

13.7 In the past the Council has set a minimum short term rating, alongside the minimum long term credit rating. However, it is the long term rating that is the ultimate driver of creditworthiness in financial institutions. In the financial markets, the perceived credit standing of an institution is referenced by its long-term rating which represents a credit rating agency's view of an institution's capacity to honour its financial obligations and its vulnerability to foreseeable events. The long-term rating is the principal driver of a bank's funding costs and perceived creditworthiness internationally, and hence market sentiment towards that institution. Given the prominence of long term ratings and on the Council's treasury management advisers' advice, it is proposed to remove the reference to short term ratings in the lending list criteria. This change will enable the Council to lend to Royal Bank of Scotland and Nat West Bank, which is not possible under the current strategy.

13.8 Although the minimum criterion for the Council's lending list is set with reference to credit ratings, the Council will review a range of information in addition to credit ratings when determining credit worthiness. Within the strategy statement, the proposed limits for time and amounts are maximum limits, and the list of counterparties is the broadest range which can be used. However, operationally the limits applied and counterparties used are reviewed regularly and where necessary restricted in response to any concerns about creditworthiness to ensure security of investments remains the priority for the Council.

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Appendix 1

Summary of Treasury Management Strategy Statement

The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement and Prudential Indicators annually in advance of the financial year. The key areas of the strategy are how much borrowing the Council needs to do, where should temporary surplus cash be invested and the Prudential Indicators.

Borrowing

The Council borrows to fund capital expenditure. As part of the financial planning process, it is determined how much capital expenditure should be funded through borrowing. The Council has an existing borrowing portfolio and the amount it is proposed to borrow is calculated by reference to capital expenditure to be funded through borrowing and the loans maturing in the year. The expected amount of borrowing is set out in tables 1a & 1b for General Fund and HRA respectively. The strategy also sets out the sources of borrowing the Council could use.

Investments

The Council invests temporary cash surpluses on a daily basis. When considering where to invest, the Council considers security first – will the money be returned, then liquidity – how quickly will it be returned and then finally yield – what rate of interest will be earned.

The Council is required to agree a framework within which officers can make investments. This consists of a lending list of institutions with monetary and time limits (set out in Annexes 4 & 5 of the strategy) and officers cannot lend the Council's monies to any institution not on this list. The second part of the framework is the setting of a minimum credit rating - this means that if any institution on the lending list falls below the minimum, then investments would cease and if possible monies would be withdrawn immediately.

Prudential Indicators

The Council is required to approve prudential indicators on an annual basis. There are two types – capital indicators and treasury management limits. They are shown throughout the report and summarised in Annex 2. The capital indicators are designed to indicate to members the impact of borrowing to fund capital and are set as best estimates. The treasury management limits are different – they are limits which cannot be breached and are designed to put in a level of control over treasury management activities. Corporate Committee receive quarterly monitoring reports on the indicators and limits and Council receive a mid year and year end report on them.

APPENDIX 2

DRAFT Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16

Contents

1. Background
2. CIPFA Treasury Management Code of Practice
3. Balance Sheet and Treasury Position
4. Borrowing Strategy
5. Investment Policy and Strategy
6. Use of Financial Instruments for the Management of Risks
7. Housing Revenue Account Self financing
8. Outlook for Interest Rates
9. Balanced Budget Requirement
10. MRP Statement
11. Other Issues

Annexes

1. Detail of Treasury Position
   A: General Fund Pool
   B: HRA Pool
2. Summary of Prudential Indicators
3. Arlingclose's Economic and Interest Rate Forecast
4. Specified Investments
5. Lending List of counterparties for investments

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4 The strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

1.5 The purpose of this report is to propose:

- Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
- Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
- MRP Statement – Section 10

2. CIPFA Treasury Management Code of Practice

2.1 Adoption of the CIPFA Treasury Management Code of Practice is one of the Prudential Indicators. The Council originally adopted the Code of Practice in May 2002. Revisions to the Code in 2009 and 2011 have been reflected in updated versions of all policies and procedures.

3. Balance Sheet and Treasury Position

3.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
General Fund CFR	254,229	251,066	240,206	228,322
Less: Share of Existing External Borrowing & Other Long Term Liabilities	183,907	156,488	148,731	141,598
Internal Borrowing	70,322	65,322	60,322	55,322
Cumulative Net Borrowing Requirement	0	29,256	31,153	31,402

Table 1b: Treasury Position – HRA

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
HRA CFR	271,714	271,714	271,714	271,714
Less: Share of Existing External Borrowing & Other Long Term Liabilities	264,482	204,043	195,272	188,016
Internal Borrowing	7,232	7,500	7,500	7,500
Cumulative Net Borrowing Requirement	0	60,171	68,942	76,198

3.2 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As interest rates are not expected to rise over the next three years, it is anticipated that a significant level of internal borrowing will continue, with the only reduction expected reflecting the planned movement in reserves. The borrowing requirement at the bottom of each of the tables shows how much external borrowing will be required to fund maturing external borrowing.

3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2012-13 to date, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.4 It is a requirement for the HRA CFR to remain with the limit of indebtedness or "debt cap" set by the Department of Communities and Local Government at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
HRA CFR	271,714	271,714	271,714	271,714
HRA Debt cap	327,538	327,538	327,538	327,538
Headroom	55,824	55,824	55,824	55,824

3.5 Table 3 below shows proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Table 3: Capital Expenditure

	2012/13 Approved £000	2012/13 Projected Out-turn £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
General	44,350	38,400	47,811	21,079	16,619
HRA	43,514	42,000	34,202	55,818	47,319
Total	87,864	80,400	82,013	76,897	63,938

3.6 Capital expenditure is expected to be financed or funded as follows:

Table 4: Capital Financing

	2012/13 Approved £000	2012/13 Projected Out-turn £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital receipts	11,130	9,609	16,073	10,128	7,600
Other grants & contributions	9,903	7,194	13,130	1,147	1,783
Government Grants	28,138	27,278	15,278	35,987	6,886
Reserves / Revenue contributions	33,219	30,941	28,657	28,588	47,669
Total Financing	82,390	75,022	73,138	75,850	63,938
Borrowing	5,474	5,379	8,875	1,047	0
Total	87,864	80,400	82,013	76,897	63,938

3.7 As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Table 5: Incremental Impact of Capital Investment Decisions

	2012/13 Approved £	2012/13 Projected Out-turn £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	1.31	0.72	8.77	1.41	0.36
Increase in Average Weekly Housing Rents	0.20	0.11	0.13	0.13	0.22

3.8 The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2012/13 Approved %	2012/13 Projected Out-turn %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund	2.70	2.71	2.62	2.51	2.45
HRA	15.35	13.87	12.94	12.72	11.88

4. Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

4.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

Table 7: Authorised Limit for External Debt

	2012/13 Approved £000	2012/13 Projected Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Borrowing	637,803	391,702	569,256	569,409	561,982
Other Long-term Liabilities	151,114	56,687	102,037	96,068	89,888
Total	788,917	448,389	671,293	665,477	651,870

4.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Table 8: Operational Boundary for External Debt

	2012/13 Approved £000	2012/13 Projected Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Borrowing	537,803	391,702	469,256	469,409	461,982
Other Long-term Liabilities	100,742	56,687	68,024	64,045	59,926
Total	638,545	448,389	537,280	533,454	521,908

4.4 The Director of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Corporate Committee.

4.5 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Annex 3 indicates that an acute difference between short and longer term interest rates is expected to continue until 2016. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.

4.6 This "cost of carry" has been a feature of money markets since 2009-10 and by essentially lending its own surplus funds to itself (i.e. internal borrowing) the Council has minimised borrowing costs and reduced overall treasury risk by reducing the level of its external investment balances. As this position is expected to continue throughout 2013-14, there are no plans to replace this internal borrowing with external borrowing. However due to debt maturities in 2013-14, external borrowing of approximately £90m will be required.

4.7 The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

4.8 In conjunction with advice from its treasury management adviser, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

4.9 The "cost of carry" discussed above has resulted in an increased reliance upon shorter dated and variable rate borrowing. These types of borrowing inject volatility into the debt portfolio in terms of interest rate risk, however this is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Council's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in a review of the borrowing strategy in conjunction with the Council's treasury management advisers to determine whether the exposure to shorter dated and variable rates is maintained or altered.

4.10 The Council has £125m of loans which are LOBO loans (Lender's Options Borrower's Option) and all of them will be in their call period during 2013/14. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender's discretion. As LOBOs currently make up 35% of the total external debt portfolio, this is a significant risk. Any LOBO called will be discussed with the Council's treasury advisers prior to the acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

4.11 The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring, although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Align long term cash flow projections and debt levels
- Changing the maturity profile of the debt portfolio.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers. Borrowing and rescheduling activity will be reported to Corporate Committee as part of the quarterly monitor reports.

4.12 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

4.13 The Council's existing level of fixed interest rate exposure is 96.7% and variable rate exposure is 3.3%, however it is recommended that the limits in place for 2012/13 are maintained in future to retain flexibility.

Table 10: Fixed and Variable Interest Rate Exposure

	2012/13 Approved %	2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	96.7	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	3.3	40	40	40

4.14 The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

Table 11: Maturity Structure of fixed rate borrowing

	Lower Limit %	Upper Limit %
under 12 months	0	40
12 months & within 2 years	0	35
2 years & within 5 years	0	35
5 years & within 10 years	0	35
10 years & within 20 years	0	35
20 years & within 30 years	0	35
30 years & within 40 years	0	35
40 years & within 50 years	0	50
50 years & above	0	50

5. Investment Policy and Strategy

5.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.

5.2 The Council's investment priorities are, in this order:
- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

5.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Annex 4 and the list of proposed counterparties is shown in Annex 5. In keeping with the strategy of maintaining low investment balances while internally borrowing, it is proposed only to use specified investments during 2013/14. The Director of Corporate Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

5.4 Money markets remain in a volatile state, with little economic growth in most developed countries and ongoing concerns about the creditworthiness of eurozone countries. Given this backdrop, it is proposed to continue to limit the proposed counterparty list to UK institutions and Money Market Funds only.

5.5 With all investments the Council makes there is a risk of default, so the proposed list of investments is prepared to minimise this risk by being selective about the counterparties to be used. It is proposed to continue to apply a minimum long term credit rating of A-, which is described as "high credit quality" by the rating agencies.

5.6 In addition to the minimum long term credit rating, the Council has in the past set a minimum short term rating. However, it is the long term rating that is the ultimate driver of creditworthiness of financial institutions. In the capital markets, the perceived credit standing of an institution is referenced by its long-term rating which represents an agency's view of an institution's capacity to honour its financial obligations and its vulnerability to foreseeable events. The long-term rating is the principal driver of a bank's funding costs and perceived creditworthiness internationally, and hence market sentiment towards that institution. Given the prominence of long term ratings, it is proposed to remove the reference to short term ratings in the lending list criteria.

5.7 All counterparties on the list are subjected to continual monitoring, in conjunction with the Council's treasury management advisers, to ensure that they continue to meet the high standard set. The range of information used to determine creditworthiness is:

- Credit ratings and credit rating watches
- Credit Default Swaps (where quoted)
- Sovereign support mechanisms/potential support from a well-resourced parent institution
- Share prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

5.8 If the monitoring reveals any concern about an institution's creditworthiness, it will be removed from the lending list with immediate effect. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office – either in the Debt Management Account Deposit Facility (DMADF) or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

5.9 The Council currently banks with Nat West, which is rated A-. Even if the credit rating of the Council's bank falls below the minimum of A-, it is proposed that the bank will continue to be used for short term liquidity arrangements (overnight and weekend investments) and business continuity arrangements.

5.10 In order to diversify the investment portfolio, investments will be placed with a range of approved investment counterparties. Maximum investment levels with each counterparty are set out in Annex 5 will ensure prudent diversification is achieved.

5.11 Money Market Funds (MMFs) will be utilised and whilst they provide good diversification the Council will also seek to diversify any exposure by utilising more than one MMF. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

5.12 The Council is required to set an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. Given the current interest rate environment, the Council will not make investments for more than 364 days.

6. Use of Financial Instruments for the Management of Risks

6.1 The CIPFA Treasury Management Code of Practice requires the Council to state if and how it will use financial instruments, such as derivatives. Currently, local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may develop a detailed and robust risk management framework governing the use of derivatives, but such a change in strategy would require full Council approval.

7. Housing Revenue Account Self-financing

7.1 Central Government completed the reform of the Housing Revenue Account (HRA) Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

7.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code of Practice recommends that authorities present this policy in the annual Treasury Management Strategy Statement.

7.3 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long term loans borrowed will be assigned in to one pool or the other. Interest payable and other costs/income arising from long term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

7.4 Differences between the value of the HRA loan pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured periodically and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short term borrowing.

8. Outlook for Interest Rates

8.1 The interest rate forecast provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

8.2 This interest rate forecast shows that UK base rate is forecast to remain at 0.5% until 2016. This would mean that short term rates remain significantly lower than long term rates throughout 2013/14 and beyond. As discussed in section 4, for this reason it is anticipated that cash balances will kept at a minimum throughout the financial year as the "cost of carry" will be significant for any borrowing taken before capital expenditure is incurred.

9. Balanced Budget Requirement

9.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

10. MRP Statement

10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

10.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

10.3 MRP in 2013/14: The guidance states Options 1 and 2 may be used only for capital expenditure originally incurred when government support was available. Methods of making prudent provision for self financed expenditure include Options 3 and 4. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

10.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

10.5 It is proposed the Council will continue to apply Option 1 (charge 4% per annum over 25 years) in respect of capital expenditure originally incurred when government support was available and Option 3 (charge over the life of the asset) in respect of all other capital expenditure funded through borrowing. MRP in respect of leases and PFI (Private Finance Initiative) schemes brought onto the Balance Sheet under the IFRS (International Financial Reporting Standards) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

11. Other Issues

Monitoring & Reporting

11.1 Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.

11.2 It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to Corporate Committee, shared with the Cabinet member for Finance & Carbon Reduction and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

11.3 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

Training

11.4 CIPFA's Treasury Management Code of Practice requires the Director of Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

11.5 Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Regular training sessions are arranged for members to keep their knowledge up to date.

Investment Consultants

11.6 The CLG's Guidance on local government investments recommends that the Investment Strategy should state:
"Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and how the quality of any such service is controlled."

11.7 The Council has appointed Arlingclose Limited to provide information and advice about the types of investment the Council should undertake and the counterparties that should be used. Quarterly service review meetings take place to monitor the service and the appointment is formally reviewed in accordance with the Council's Contract Standing Orders.

ANNEX 1

Detail of Treasury Position

A: General Fund Pool

	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000	31 Mar 15 Estimate £000	31 Mar 16 Estimate £000
Existing External Borrowing commitments:				
PWLB	69,947	61,844	57,520	53,944
Market loans	41,273	41,273	41,273	14,273
Local Authorities	16,000	0	0	0
Total External Borrowing	127,220	103,117	98,793	95,217
Long Term Liabilities	56,687	53,371	49,938	46,381
Total Gross External Debt	183,907	156,488	148,731	141,598
CFR	254,229	251,066	240,206	228,322
Internal Borrowing	70,322	65,322	60,322	55,322
Cumulative Borrowing requirement	0	29,256	31,153	31,402

B: HRA Pool

	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000	31 Mar 15 Estimate £000	31 Mar 16 Estimate £000
Existing External Borrowing commitments:				
PWLB	136,755	120,316	111,545	104,289
Market loans	83,727	83,727	83,727	83,727
Local Authorities	44,000	0	0	0
Total External Borrowing	264,482	204,043	195,272	188,016
CFR	271,714	271,714	271,714	271,714
Internal Borrowing	7,232	7,500	7,500	7,500
Cumulative Borrowing requirement	0	60,171	68,942	76,198

ANNEX 2

Summary of Prudential Indicators

No.	Prudential Indicator	2013/14	2014/15	2015/16
CAPITAL INDICATORS				
1	Capital Expenditure	£000	£000	£000
	General Fund	47,811	21,079	16,619
	HRA	34,202	55,818	47,319
	TOTAL	82,013	76,897	63,938
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.62	2.54	2.45
	HRA	12.94	12.72	11.88
3	Capital Financing Requirement	£000	£000	£000
	General Fund	251,066	240,206	228,322
	HRA	271,714	271,714	271,714
	TOTAL	522,780	511,920	500,036
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	8.77	1.41	0.36
	Weekly Housing rents	0.13	0.13	0.22

No.	Prudential Indicator	2013/14		2014/15		2015/16	
TREASURY MANAGEMENT LIMITS							
5	Borrowing limits	£000		£000		£000	
	Authorised Limit	671,293		665,477		651,870	
	Operational Boundary	537,280		533,454		521,908	
6	HRA Debt Cap	£000		£000		£000	
	Headroom	55,824		55,824		55,824	
7	Upper limit – fixed rate exposure	100%		100%		100%	
	Upper limit – variable rate exposure	40%		40%		40%	
8	Maturity structure of borrowing (U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	40%	0%	40%	0%	40%
	12 months & within 2 yrs	0%	35%	0%	35%	0%	35%
	2yrs & within 5 yrs	0%	35%	0%	35%	0%	35%
	5 yrs & within 10 yrs	0%	35%	0%	35%	0%	35%
	10 yrs & within 20 yrs	0%	35%	0%	35%	0%	35%
	20 yrs & within 30 yrs	0%	35%	0%	35%	0%	35%
	30 yrs & within 40 yrs	0%	35%	0%	35%	0%	35%
	40 yrs & within 50 yrs	0%	50%	0%	50%	0%	50%
	50 yrs & above	0%	50%	0%	50%	0%	50%
9	Sums invested for more than 364 days	0		0		0	
10	Adoption of CIPFA Treasury Management Code of Practice	√		√		√	

ANNEX 3

Arlingclose's Economic and Interest Rate Forecast

	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
Base Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 month LIBID	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60
1 year LIBID	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10
5 yr gilt	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20
10 yr gilt	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20
20 yr gilt	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00
50 yr gilt	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60

Specified Investments

It is proposed that the Council only uses specified investments during 2013/14. Specified Investments are those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated.
- has a maximum maturity of 1 year.
- meets the "high credit quality" definition as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with UK banks and building societies
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Treasury-Bills (T-Bills)
- Certificates of deposit with UK banks and building societies
- *Gilts: (bonds issued by the UK government)

** Investments in these instruments would only be undertaken on advice from the Council's treasury management adviser.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council will also take into account the range of information on investment counterparties detailed in section 5.7.

Specified investments will be made within the limits detailed in the table below. The limits stated will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments.

The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness.

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	6 months
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
Treasury Bills	UK	Debt Management Office (DMO)	No limit	6 months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Counterparties rated at least A- Long Term (or equivalent)	£20m per bank or banking group	364 days
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	Constant Net Asset Value Money Market Funds (MMFs)	£20m per MMF*; Group limit £100m	Instant Access

* Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Annex 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in 5.7 and 5.8 raises any concerns about their credit worthiness.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Gilts, Treasury Bills, Term Deposits	UK	Debt Management Office (Term deposits with Debt Management Account Deposit Facility DMADF)	No limit
Term Deposits	UK	Other Local Authorities	£30m per local authority
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds Banking Group including Lloyds TSB and Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	RBS Group including Nat West Bank and Royal Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20
Money Market Funds	Ireland	BlackRock Institutional Sterling Liquidity Fund	20
Money Market Funds	Ireland	BlackRock Institutional Sterling Government Liquidity Fund	20
Money Market Funds	Ireland	Goldman Sachs Liquid Reserves Fund	20

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Money Market Funds	Ireland	Deutsche Managed Sterling Fund	20
Money Market Funds	Ireland	Invesco Short Term Investments Company Sterling Liquidity Portfolio	20
Money Market Funds	Luxembourg	J.P. Morgan Asset Management Sterling Liquidity Fund	20
Money Market Funds	Ireland	RBS Global Treasury Sterling Fund	20