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GOVERNANCE COMMITTEE

Tuesday, 5th February 2013
at 6.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor David Furnell (Chair)
Councillor Mark Chaloner
Councillor Edward Daunt
Councillor John Hannides
Councillor John Inglis
Councillor Satvir Kaur (Vice-Chair)
Councillor Eamonn Keogh

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

02 Part 2 - Articles

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones – Please turn off your mobile telephone whilst in the meeting.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

Southampton City Council's Seven Priorities

- More jobs for local people
- More local people who are well educated and skilled
- A better and safer place in which to live and invest
- Better protection for children and young people
- Support for the most vulnerable people and families
- Reducing health inequalities
- Reshaping the Council for the future

Dates of Meetings: Municipal Year 2012/13

2012	2013
2nd July	5th February
25th September	30th April
10th December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

DISCLOSURE OF INTEREST
Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Personal Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PERSONAL INTERESTS
A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.
(ii) Sponsorship:
Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.
(iv) Any beneficial interest in land which is within the area of Southampton.
(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.
(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.
(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value fo the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having a, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

Agendas and papers are now available via the Council's Website

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 10th December 2012 and to deal with any matters arising, attached.

5 ANNUAL GOVERNANCE STATEMENT

Report of the Head of Finance seeking approval for the assurance gathering process to support the development of the 2012-13 Annual Governance Statement, attached.

6 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 TO 2015/16

Report of the Head of Finance regarding the Council's treasury management strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity, attached.

Monday, 28 January 2013 Head of Legal, HR and Democratic Services

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 10 DECEMBER 2012

Present:	Councillors Furnell (Chair), Daunt, Inglis and Keogh
Independent Members	Mr David Blake
Apologies:	Councillors Chaloner, Hannides and Kaur
Also in Attendance	Kate Handy and Mike Bowers, External Auditors

22. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 25th September 2012 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

23. **RISK MANAGEMENT ACTION PLAN 2012-13: STATUS REPORT**

The Committee considered the report of the Head of Finance and IT providing a mid term status report on the Risk Management Action Plan 2012-13 as presented and approved by the Governance Committee at the meeting held on 2nd July 2012. The report reflects the position or status of the agreed actions. (Copy of report circulated with the agenda and appended to signed minutes).

RESOLVED: that the ‘Risk Management Action Plan 2012-13: Status Report’ document (Appendix) be noted.

24. **AUDIT COMMISSION: CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2011/12**

The Committee considered the report of the Chief Internal Auditor regarding outcomes of the Audit Commission’s Certification of Claims and Returns – Annual Report 2011/12; including observations arising from the assessment of the Council’s arrangements for preparing claims and returns and information on claims that were amended or qualified. (Copy of report circulated with the agenda and appended to signed minutes).

25. **INTERNAL AUDIT: PROGRESS REPORT - 31 OCTOBER 2012**

The Committee received and noted the report of the Chief Internal Auditor summarising the activities of internal audit for the period ending 31st October 2012. (Copy of report circulated with the agenda and appended to signed minutes).

RESOLVED that further background information be circulated to the Committee regarding the use of mobile phones across the Council.

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DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		ANNUAL GOVERNANCE STATEMENT		
DATE OF DECISION:		5 FEBRUARY 2013		
REPORT OF:		HEAD OF FINANCE AND IT		
CONTACT DETAILS				
AUTHOR:	**Name:**	Peter Rogers	**Tel:**	023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk		
Director	**Name:**	Andy Lowe	**Tel:**	023 8083 2049
	E-mail:	andrew.lowe@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

The Annual Governance Statement ('AGS') is a key corporate document that is intended to provide an accurate representation of the corporate governance arrangements that were in place during the year and to highlight any significant gaps or areas where improvements are required. The production of an AGS is a mandatory requirement under Accounts and Audit (England) Regulations 2011.

RECOMMENDATIONS

The Governance Committee is asked to:

(i) Note and approve the assurance gathering process to support the development of the 2012-13 Annual Governance Statement (Appendix 1); and

(ii) Note the content of the AGS 2011-12 Action Plan - Status Report (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.

2. This responsibility extends to receiving, reviewing and approving the draft AGS prior to the document being signed by both the Chief Executive and Leader of the Council.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered

DETAIL (Including consultation carried out)

4. Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.

5. The AGS, which is published with the statement of accounts, is intended to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight any significant gaps or areas where improvements are required.

6. The AGS is produced following a review of the Council's governance arrangements. The review requires the systems and processes that comprise the Council's Code of Corporate Governance to be brought together and reviewed.

7. An overall Assurance Framework document is completed and in addition, each Director is required to complete an 'Annual Governance - Self Assessment Statement'. Both the documents cover the key processes and systems that comprise the Council's governance arrangements and are intended to identify any areas where improvement or further development is required.

8. The 'assurance gathering process' is based on CIPFA /SOLACE guidance. No significant changes are proposed on the basis that that the current process is considered to be robust, noting that the Audit Commission's 'Annual Governance Report 2011-12' states that:

   "I have reviewed the Annual Governance Statement and can confirm that:

   - it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
   - it is consistent with other information that I am aware of from my audit of the financial statements".

9. The AGS is developed by a 'Controls Assurance Management Group' (including the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer and Chief Internal Auditor) that has responsibility for evaluating assurances and supporting evidence and for drafting the AGS.

10. The draft AGS will be presented to the Governance Committee for review and approval prior to being forwarded to the Chief Executive and Leader of the Council for signing.

RESOURCE IMPLICATIONS

<u>Capital/Revenue</u>

11. None

<u>Property/Other</u>

12. None

LEGAL IMPLICATIONS

<u>Statutory power to undertake proposals in the report</u>:

13. The Accounts and Audit (England) Regulations 2011 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

<u>Other Legal Implications</u>:

14. None

POLICY FRAMEWORK IMPLICATIONS

15. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None

<u>SUPPORTING DOCUMENTATION</u>

Appendices

1.	AGS 2012-13 – Process and timelines
2.	AGS 2011-12 Action Plan - Status Report

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s) | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	

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Appendix 1

Annual Governance Statement 2012/13 - Process and timelines

No.	Action	Meeting/Target date	Responsibility
1 -	Paper to Governance Committee re Annual Governance Statement and assurance gathering process.	5th Feb 2013	Risk & Assurance Manager
2 -	Review content of the Annual Governance - Self Assessment Statement.	1st - 22nd February 2013	Risk & Assurance Manager
3 -	Review of format of the Code of Corporate Governance against current CIPFA/SOLACE guidance.	1st - 28th March 2013	Risk & Assurance Manager
4 -	Issue of Self Assessment Questionnaires to Directors for completion	2nd April 2013	Risk & Assurance Manager
5 -	Return of self assessments and completion of Assurance Framework document.	26th April 2013	Directors
6 -	Validation of self assessments by Internal Audit.	29th April - 17th May 2013	Chief Internal Auditor
7 -	Draft AGS developed in consultation with Controls Assurance Management Group ("CAMG"). NOTE: Further ad hoc meetings may be required and will be arranged as necessary.	31st May 2013	Controls Assurance Management Group
8 -	Submission of draft of AGS to Management Board of Directors.	2nd September 2013	Management Board of Directors
9 -	Final draft AGS to CAMG for noting.	w/c 9th September 2013	Controls Assurance Management Group
10 -	Report to Governance Committee for final approval of AGS.	23rd September 2013	Risk & Assurance Manager
11 -	Signed by Chief Executive and Leader of the Council.	30th September 2013	Risk & Assurance Manager

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Annual Governance Statement 2011-12 Action plan: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2011-12:

Extract from the 2011-12 AGS – 'Significant Governance Issues'				**Update**		
	Issue	Agreed Action	Target Date	**Status**	**Responsible Officer**	**Comments**
1.	The Partnership Code and Toolkit, that was adopted as part of the Council's constitution in 2009, no longer reflects the revised approach to partnership working.	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.	May 2012	**COMPLETED**	Director of Corporate Services / Director of Environment and Economy	A revised Partnership Code was developed and adopted as part of the Council's Constitution. The revised Code is intended to ensure that sound governance arrangements are in place and provides 'signposts to good practice'. It will continue to be reviewed as partnership working arrangements develop and evolve.
2.	A biennial review of the Review of the Council's Code of Corporate Governance ("CCG") was due in April 2012.	A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legalisation that potentially impact on the CCG. It will therefore to be subject to an annual 'light touch' review as part of the review of the constitution.	May 2013 and annually thereafter	**IN PROGRESS**	Director of Corporate Services	CIPFA/SOLACE has issued a "Delivering Good Governance in Local Government: Guidance Note for English Authorities / 2012 Edition". A review of the format of the CCG against the updated guidance has commenced.
3.	The reduction in the number of Directorates and Director roles together with the rationalisation of management posts has reduced overall capacity and resilience.	A new Workforce Strategy (People Plan) has been drafted and it is intended to formally adopt this and start to implement its first "Foundation Year" in the Autumn.	Autumn 2012	**COMPLETED**	Director of Corporate Services	The People Plan was agreed by members of MBoD and the Trade Unions in late Autumn. A Project Group has been established to progress the individual work strands that comprise the Foundation Year (2012/3) and is due to be completed by the end of the current financial year. There will be ongoing work in future years as the plan is rolled out and implemented. A new Head of HR has also recently been appointed and will be tasked with driving this forward.

Agenda Item 5

Appendix 2

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DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 to 2015/16		
DATE OF DECISION:		5 FEBRUARY 2013 13 FEBRUARY 2013		
REPORT OF:		HEAD OF FINANCE AND IT (CHIEF FINANCIAL OFFICER)		
CONTACT DETAILS				
AUTHOR:	**Name:**	Alison Chard	**Tel:**	023 80 4897
	E-mail:	Alison.Chard@southampton.gov.uk		
Director	**Name:**	Andrew Lowe	**Tel:**	023 80 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2013/14 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

As at 31 March 2013 the Council's gross external debt is expected to be £410M and the total value of investments is forecast at £53M. The Balance Sheet position as at 31 March 2012 showed the value of debt as £372M and the value of investments as £68M.

The Council's Capital Financing Requirement (CFR), which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure that has not yet been financed, is a key driver of borrowing strategy. The projected CFR for 31 March 2013 is £437M, of which £268M is attributed to the General Fund and the remaining £169M to the Housing Revenue Account (HRA).

The Council's current strategy is to minimise borrowing to below its CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources which include the Public Works Loan Board (PWLB), commercial banks, the European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits, the Authorised Limit, (a statutory limit that sets the maximum level of external borrowing on a gross basis), and the Operational Boundary, (which is determined by both the estimated CFR and day to day cash flow movements). For 2013/14 the proposed Authorised Limit is £898M and proposed Operational Boundary is £857M. These are substantially higher than our anticipated actual level of debt but they allow for a full debt restructure to be undertaken if an appropriate opportunity arises, which may require taking new borrowing in advance of paying off existing loans.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are: the security of invested capital, the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and the overall holding with institutions.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. In any period of significant stress in the markets, the default position will be to invest with the governments Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently, this strategy is kept under review and, taking market information into account, will be realigned, if required, in line with evolving market conditions and expectations for future interest rates.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Endorse the Treasury Management (TM) Strategy for 2013/14 as outlined in the report.

ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved by Council on 13 February 2013. Should the recommendations change, the Prudential Indicators may have to be recalculated.

iii) Note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

i) Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2013/14, 2014/15 and 2015/16, as detailed within the report.

ii) Approve the 2013 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 53 to 57.

iii) Approve the Annual Investment Strategy as detailed in paragraphs 26 to 43.

iv) Note that at the time of writing this report the recommendations in the Capital Programme Update report, submitted to Council on the 13 February 2013, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.

v) Continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

1. In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:

- Treasury Management Strategy for 2013/14:
  - Borrowing – Paragraphs 17 to 22,
  - Debt Rescheduling – Paragraphs 23 to 25
  - Investments – Paragraphs 26 to 43.
- MRP Statement – Paragraphs 53 to 57.

- Prudential Indicators – Paragraphs 62 to 85.
- Use of Specified and Non-Specified Investments – Paragraphs 26 to 35.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which are being taken at Full Council on 13 February 2013.

DETAIL (Including consultation carried out)

CONSULTATION

3. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

4. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.

5. 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 a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS), that is a requirement of the Department for Communities and Local Government's (CLG) Investment Guidance.

6. As per the requirements of the Prudential code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of its Council meeting on 19 February 2003 and all subsequent updates.

7. The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:

   - Liquidity Risk (Inadequate cash resources)
   - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
   - Inflation Risks (Exposure to inflation)
   - Credit and Counterparty Risk (Security of Investments)
   - Refinancing Risks (Impact of debt maturing in future years)
   - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

8. The purpose of this TMSS is to allow Council to approve:

- Treasury Management Strategy for 2013/14
- Annual Investment Strategy 2013/14
- Prudential Indicators for 2013/14, 2014/15 and 2015/16
- 2013 MRP Statement

9. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 2) has also been taken into account in developing this strategy

10. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

11. All treasury activity will comply with relevant statue, guidance and accounting standards.

BALANCE SHEET AND TREASURY POSITION

12. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.

13. As at the 31 December 2012 the Authority's had £371M of debt and £70M investments which is set out in further detail in Appendix 1.

14. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

15. The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown below.

	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
General Fund CFR	**268**	**261**	**259**	**251**
Housing CFR	**169**	**176**	**179**	**179**
Total CFR	**437**	**437**	**438**	**430**
Less: Existing Profile of Long Term Borrowing and Other Long Term Liabilities	385	394	395	384
Cumulative Maximum External Borrowing Requirement	**52**	**43**	**43**	**46**
Balances & Reserves	34	28	24	22
Cumulative Net Borrowing Requirement / (Investments)	**18**	**15**	**19**	**24**

OUTLOOK FOR INTEREST RATES

16. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose, is attached at Appendix 2. This indicates that rates are likely to remain lower for longer with the forecast for the UK base rate to remain at 0.5% until 2016, given the outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. The Council also monitors other sources of market information and will reappraise its strategy from time to time and, if required, realign it with evolving market conditions and expectations for future interest rates.

BORROWING STRATEGY

17. 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. 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. The interest rate forecast provided in Appendix 2 indicates that the cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods, (anything up to 50 years), the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

18. As indicated in the table in paragraph 15, the Authority has a gross borrowing requirement in 2012/13 which may be deferred to 2013/14 or beyond, providing balances can support this. The Authority will adopt a flexible approach to this borrowing in consultation with its TM advisers.

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.

Sources of Borrowing and Portfolio implications

19. In conjunction with advice from its treasury advisor, the Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

20. The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.5%) between the variable rate and the 30 year fixed maturity will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

21. The Council has exposed itself to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that the Council must monitor markets to ensure it is not caught out. During 2013/14 the Council will continue to review and take action as necessary to lessen this risk through a balanced combination of:

- longer term fixed maturity loans,
- medium term Equal Instalment of Principle (EIP) loans which are currently cheaper than longer term fixed,
- longer term PWLB variable loans which have the option to be fixed at very short notice for a small fee and
- variable rate investments to take advantage of increasing interest rates, mainly through the use of money market funds (MMF).

In order to mitigate these risks further, the Council approved the creation of an

Interest Equalisation Reserve in 2009.

At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. In achieving this, the Council has exposed itself to short term variable interest rate risk and whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time. It was therefore recommended that an Interest Equalisation Reserve be created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. The Reserve will be maintained at an appropriate level to protect the Council from future increase in debt charges where it is prudent to do so. The level of the reserve will be reviewed over the next twelve months.

22. The Authority has £9M exposure to LOBO loans all of which can be "called" within 2013/14. A LOBO is called when the Lender exercises their 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 Authority since the decision to call a LOBO is entirely at the lender's discretion. Any LOBOs called will be discussed with the treasury advisers prior to 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.

DEBT RESCHEDULING

23. The Authority'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.

24. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertaken meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

25. Borrowing and rescheduling activity will be reported to the Governance Committee in the Annual Treasury Management Report and the mid year update. Regular treasury management reports will also be presented as part of quarterly monitoring to Cabinet.

INVESTMENT POLICY AND STRATEGY

26. In accordance with Investment Guidance issued by the CLG and best practice the Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, followed by the yield earned on investments which is a tertiary consideration. The Authority and its advisors remain on alert for signs of credit or market distress which might adversely affect the Authority.

27. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else. Potential instruments for the Council's use within its investment strategy are detailed below.

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×
Investments with Other Organisations	×	✓

28. The Chief Financial Officer (CFO), 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. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

29. Investments with other organisations have been included as a non-specified investment category for 2013/14. This would include investment opportunities with small and medium sized enterprises (SMEs) and other businesses across the UK. Because of the higher perceived credit risk of SMEs, such investments may provide considerably higher rates of return. An external credit assessment will be undertaken and advice from the Council's TM adviser will be sought (where available) before any investment decision is made. No investment would be undertaken unless security on the asset could be obtained.

30. The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix 4, the CFO will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

31. The other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in the Prudential Indicator on Credit Risk, paragraphs 81 to 83.

32. Any institution will be suspended or removed should any of the factors identified give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

33. The countries and institutions that currently meet the criteria for investments are included in Appendix 3.

34. It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

35. The Authority banks with the Co-operative Bank which at the current time does not meet the Authority's minimum credit criteria of A- (or equivalent) long term. The Co-operative Bank current rating sits one notch below the revised criteria and has a stable outlook. However, few of the banks which meet our criteria are actively in the tendering process for local authority banking and it is a costly and complicated process. With this in mind, despite the credit rating being below the Authority's minimum criteria, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

<u>Investment Strategy</u>

36. With short term interest rates forecast to be low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

37. In order to diversify an investment portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

38. Money market funds (MMFs) will be utilised, but good TM practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority 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. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent however the Council's funds are ring fenced throughout the process.

39. The Council's current level of investments is presented at Appendix 1.

40. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

41. In any period of significant stress in the markets, the default position is for investments to be made with the DMO or in UK Treasury Bills. Rates of interest available are below equivalent money market rates, but the returns are an acceptable trade-off for the guaranteed security of the Council's capital.

42. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2013/14. Short term money market rates are likely to remain at very low levels for an extended period, which will have a significant impact on investment income and which has been reflected in the budget forecast.

Collective Investment Schemes (Pooled Funds)

43. The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Any investment in pooled funds will be undertaken with advice from our advisors. Pooled Funds available to the Authority are listed in Appendix 4; their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored.

Policy on Use of Financial Derivates

44. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

45. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce

the overall level of the financial risks that the Authority is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

46. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

47. The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Housing Revenue Account Self-Financing

48. Central Government completed its reform of the Housing Revenue Account 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 CLG.

49. 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 Code recommends that authorities present this policy in their TMSS.

50. On 1 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 their entirety 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.

51. Differences between the value of the HRA loans 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. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on the average return of Government Treasury Bills as interest rate received on investments with commercial organisations (e.g. banks) includes a credit risk margin, i.e. an element to compensate the lender for the risk that the borrower is unable to repay the investment. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

BALANCED BUDGET REQUIREMENT

52. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

2013/14 MINIMUM REVENUE PROVISION (MRP) STATEMENT

53. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP) and to submit this to Council before the start of the 2013/14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put forward for approval by the Authority at that time.

54. CLG's Guidance on Minimum Revenue Provision (issued in 2010) places 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. The four MRP options available are:

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

NB *This does not preclude other prudent methods to provide for the repayment of debt principal.*

MRP in 2013/14: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

55. Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.

56. MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

57. Guidance relating to the regulatory method (option 1), which is used to calculate borrowing prior to the prudential regime, allows for debt transferred from Hampshire County Council (HCC) when we became a Unitary Authority in 1997 to be excluded from the MRP calculation as we are already repaying the principal element to HCC. The guidance states that the adjustment should be based on the value of the debt as at the 1 April 2004, however in order to be prudent we reduced the adjustment each year in line with the actual debt outstanding, thus increasing the amount of MRP we needed to pay in year. We are now seeking advice on whether this technical 'overpayment' can be reversed which could result in a one off credit in MRP to the General Fund.

MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND PRUDENTIAL INDICATORS

58. The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:

(a) A mid year review against the strategy approved for the year.

(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

59. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

TRAINING

60. CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was undertaken on the 12 January 2012 and a further session has been arranged for the 30 January 2013. The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

TREASURY MANAGEMENT ADVISORS

61. The CLG's Guidance on local government investments recommend 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.

The Council has a contract in place with Arlingclose, to the 31 January 2014, to provide a treasury advisory service and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support
- Ad hoc advice

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

PRUDENTIAL INDICATORS

Background

62. There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

Gross Debt and the Capital Financing Requirement

63. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. The CFO reports that the Authority had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

64. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment

Estimates of Capital Expenditure

65. This indicator is set to ensure that the level of proposed 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.

Capital Expenditure	2012/13 Approved £000's	2012/13 Revised £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
General Fund	65,677	63,558	47,034	23,666	4,282
HRA	33,894	31,196	37,202	35,622	34,609
Total	**99,571**	**94,754**	**84,236**	**59,288**	**38,891**

66. The table below details how capital expenditure is expected to be financed and shows that the Authority cannot finance this without the need for external borrowing.

Capital Financing	2012/13 Approved £000's	2012/13 Revised £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Capital receipts	17,914	18,107	15,402	11,079	1,049
Government Grants	36,715	36,978	30,946	10,762	2,100
Contributions	5,328	5,103	2,624	2,586	2,832
Major Repairs Allowance	17,172	17,172	16,117	16,843	16,841
Revenue	11,537	11,025	11,354	9,677	11,169
Total Financing	**88,666**	**88,385**	**76,443**	**50,947**	**33,991**
Temporary Financing	0	(6,100)	(5,860)	0	0
Unsupported borrowing	10,905	12,469	13,653	8,341	4,900
Total Funding	**10,905**	**6,369**	**7,793**	**8,341**	**4,900**
Total Financing & Funding	**99,571**	**94,754**	**84,236**	**59,288**	**38,891**

Ratio of Financing Costs to Net Revenue Stream

67. This 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. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme. It should be noted that the budget requirement for the year is used to calculate this indicator and that the basis for this has changed from 2013/14 resulting in an increase, thus lowering the ratio. If the original basis had remained, the ratio for 2013/14 would have been around 7.5%.

68. This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund	6.84%	6.26%	6.78%	6.97%	7.24%
HRA	10.92%	24.96%	17.51%	16.18%	15.57%
Total	8.84%	12.15%	10.43%	10.20%	10.54%

Capital Financing Requirement (CFR)

69. The CFR measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet

relating to capital expenditure and its' financing.

Capital Financing Requirement	2012/13 Approved £M	2012/13 Revised £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
General Fund	265	268	261	259	251
HRA	176	169	176	179	179
Total CFR	**441**	**437**	**437**	**438**	**430**

The year–on-year change in the CFR is due to the following:

Capital Financing Requirement	2012/13 Approved £M	2012/13 Forecast £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balance B/F	**444**	**445**	**437**	**437**	**438**
Capital expenditure financed from borrowing (inc PFI schemes)	15	13	14	12	3
Temporary Funding (Repayment)	0	(6)	(6)	0	0
HRA Debt	(8)	5	7	3	3
Revenue provision for debt Redemption.	(8)	(18)	(13)	(12)	(12)
Movement in Other Long Term Liabilities	(2)	(2)	(2)	(2)	(2)
Cumulative Maximum External Borrowing Requirement	**441**	**437**	**437**	**438**	**430**

Incremental Impact of Capital Investment Decisions

70. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are estimated to be:

Incremental Impact of Capital Investment Decisions	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase / (decrease) in Band D Council Tax	2.94	(10.11)	(5.20)	0.13
Increase /(decrease) in Average Weekly Housing Rents	(2.41)	14.02	7.22	5.28

71. The decision to restrict the capital programme and to use capital receipts to repay temporary financing results in an incremental decrease in the Band D Council Tax for 2013/14 and 2014/15. For the HRA, the reality is that the rent levels are set under the Government's rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.

Authorised Limit and Operational Boundary for External Debt

72. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

73. The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

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, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2012/13 Approved £M	2012/13 Revised £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Borrowing	832	809	817	814	799
Other Long-term Liabilities	79	79	81	86	91
Total	**911**	**888**	**898**	**900**	**890**

74. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow 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

Operational Boundary for External Debt	2012/13 Approved £M	2012/13 Revised £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Borrowing	794	772	779	777	763
Other Long-term Liabilities	75	75	78	82	87
Total	**869**	**847**	**857**	**859**	**850**

75. The CFO has delegated authority, within the above limits 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. Council will be notified of any use of this delegated authority.

Adoption of the CIPFA Treasury Management Code

76. This indicator demonstrates that the Council has adopted the principles of best practice and all subsequent updates.

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 19 February 2003

Upper Limits for Fixed and Variable Interest Rate Exposure

77. 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.

	Existing level at 31/12/2012 %	2011/12 Approved %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	85	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	15	50	50	50	50

78. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's TM strategy.

As all LOBO are now in their call options they have been included as under 12 months within this indicator.

Maturity Structure of Fixed Rate borrowing

79. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

80. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2012 £M	Average Fixed Rate as at 31/12/2012 %	% of Fixed Rate as at 31/12/2012	Compliance with set Limits?
Under 12 months	0	45	12	1.84	5.03	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	95	3.23	38.70	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	10	4.68	4.05	Yes
30 years and within 35 years	0	75	5	4.60	2.03	Yes
35 years and within 40 years	0	75	25	4.62	10.13	Yes
40 years and within 45 years	0	75	53	3.61	21.44	Yes
45 years and within 50 years	0	75	46	3.54	18.62	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			247	**3.54**	**100.00**	

Credit Risk

81. The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

82. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

83. The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Upper Limit for total principal sums invested over 364 days

84. The purpose of 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.

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £M	2012/13 Revised £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
	50	50	50	50	50

HRA Limit on Indebtedness

85. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing.

HRA Summary of Borrowing	2012/13 Estimate £M	2012/13 Revised £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Brought Forward	174.2	174.2	168.8	175.7	178.8
Maturing Debt	(8.6)	(10.4)	(5.6)	(5.1)	(5.1)
New borrowing	4.8	5.0	12.5	8.2	4.9
Carried forward	**170.4**	**168.8**	**175.7**	**178.8**	**178.6**
HRA Debt Cap (as prescribed by CLG)	201.3	199.6	199.6	199.6	199.6
Headroom	**30.9**	**30.8**	**23.9**	**20.8**	**21.0**

RESOURCE IMPLICATIONS

Capital

86. The Capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the Council agenda.

Revenue

87. The Revenue implications are considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the Council agenda.

Property/Other

88. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

89. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

90. None

POLICY FRAMEWORK IMPLICATIONS

91. This report has been prepared in accordance with CIPFA's Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	Existing Investment & Debt Portfolio Position and Projections
2.	Economic and Interest Outlook

3.	Recommended Sovereign and Counterpart List
4.	Non- Specified Investments
5.	Treasury Management Policy Statement
6.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2012/13 TO 2014/15 – Council 15 February 2012	

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APPENDIX 1

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

		Current Portfolio £M		31-Mar-13 Estimate £M	31-Mar-14 Estimate £M	31-Mar-15 Estimate £M	31-Mar-16 Estimate £M
External Borrowing:							
Fixed Rate – PWLB Maturity		144		144	156	167	171
Fixed Rate – PWLB EIP		97		103	90	77	65
Variable Rate – PWLB		35		55	60	60	60
Variable Rate – Market		9		9	9	9	9
Long Term Borrowing		285		311	315	313	305
Fixed Rate – Short Term Market		14		25	50	50	50
Other Long Term Liabilities							
PFI / Finance leases		54		57	62	66	63
Deferred Debt Charges		18		17	17	16	16
Total Gross External Debt		371		410	444	445	434
Investments:							
Deposits and monies on call and Money Market Funds		(64)		(50)	(50)	(50)	(50)
Supranational bonds		(6)		(3)	(3)	(3)	(3)
Total Investments		(70)		(53)	(53)	(53)	(53)
Net Borrowing Position		**301**		**357**	**391**	**392**	**381**

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APPENDIX 2

Appendix 2

ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2012 is detailed below. 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.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- Consumer Price UK growth is unlikely to return to above trend for the foreseeable future. Quarter 3 Gross Domestic Product (GDP) was strong at 0.9% but this momentum is unlikely to be sustained in Quarter 4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.
- Consumer Price Inflation (CPI) has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.

- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, Quantitative Easing (QE) is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds, (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored), is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning the haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

Appendix 3

RECOMMENDED SOVEREIGN AND COUNTERPARTY LIST

Group Limits *- For institutions within a banking group, a limit of 1.5 times the individual limit of a single bank within that group.*

Country/ Domicile	Counterparty	Maximum Counterparty Limit % (£15M Absolute limit)	Maximum Group Limit (if applicable) %	Maximum Maturity Limit (term deposits and instruments without a secondary market) (1)	Maximum Maturity Limit (negotiable instrument) (2)
UK	Co-operative Bank (for banking & liquidity purposes only)				
UK	Santander UK Plc (Banco Santander Group)	15%		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	15%	22.5%	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	15%		2 years	5 years
UK	Barclays Bank Plc	15%		2 years	5 years
UK	HSBC Bank Plc	15%		2 years	5 years
UK	Nationwide Building Society	15%		2 years	5 years
UK	NatWest (RBS Group)	15%	22.5%	2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	15%		2 years	5 years
UK	Standard Chartered Bank	15%		2 years	5 years
Australia	Australia and NZ Banking Group	15%		2 years	5 years
Australia	Commonwealth Bank of Australia	15%		2 years	5 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	15%		2 years	5 years
Australia	Westpac Banking Corp	15%		2 years	5 years
Canada	Bank of Montreal	15%		2 years	5 years
Canada	Bank of Nova Scotia	15%		2 years	5 years
Canada	Canadian Imperial Bank of Commerce	15%		2 years	5 years
Canada	Royal Bank of Canada	15%		2 years	5 years
Canada	Toronto-Dominion Bank	15%		2 years	5 years
Finland	Nordea Bank Finland	15%		2 years	5 years

Country/ Domicile	Counterparty	Maximum Counterparty Limit % (£15M Absolute limit)	Maximum Group Limit (if applicable) %	Maximum Maturity Limit (term deposits and instruments without a secondary market) (1)	Maximum Maturity Limit (negotiable instrument) (2)
Finland	Pohjola	15%		2 years	5 years
France	BNP Paribas	15%		2 years	5 years
France	Credit Agricole CIB (Credit Agricole Group)	15%	22.5%	2 years	5 years
France	Credit Agricole SA (Credit Agricole Group)	15%		2 years	5 years
France	Société Générale	15%		2 years	5 years
Germany	Deutsche Bank AG	15%		2 years	5 years
Netherlands	ING Bank NV	15%		2 years	5 years
Netherlands	Rabobank	15%		2 years	5 years
Netherlands	Bank Nederlandse Gemeenten	15%		2 years	5 years
Singapore	DBS	15%		2 years	5 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	15%		2 years	5 years
Singapore	United Overseas Bank (UOB)	15%		2 years	5 years
Sweden	Svenska Handelsbanken	15%		2 years	5 years
Switzerland	Credit Suisse	15%		2 years	5 years
US	JP Morgan	15%		2 years	5 years

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.

(1). *2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the authority's treasury management adviser.*

(2). 5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Authority may be investing for shorter periods depending on operational advice of the authority's treasury management adviser.

T*hose shaded in yellow designate those banks currently in use*

NON – SPECIFIED INVESTMENTS

Instrument	Maximum Maturity	Max £M of Portfolio	Capital Expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	£15M per counterparty	No	
Term deposits with local authorities		£15M per counterparty	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years	£15M per counterparty	No	
Investments with organisations which **do not meet** the specified investment criteria (subject to an external credit assessment and specific advice from TM Adviser)	3 months	£5M per counterparty	No	Bank falling below criteria specified e.g. Co-op
	1 year	£1M per counterparty	No	Small & Medium Enterprises
	5 years	£1M per counterparty	Yes/no (could be either depending on the nature of transaction with third party)	
		Subject to a maximum of £20M overall		
Deposits with registered providers		£5M per counterparty	No	

Instrument	Maximum Maturity	Max £M of Portfolio	Capital Expenditure?	Example
Gilts		£5M per counterparty	No	
Bonds issued by multilateral development banks		£15M per counterparty	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments		£15M per counterparty	No	
Money Market Funds and Collective Investment Schemes		£15M per counterparty	No	Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards		£5M per counterparty	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	These funds do not have a defined maturity date	£5M	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund

The Authority will have a maximum of £30M of its investment portfolio in non-specified investments.

Appendix 5

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5. The Council nominates Governance committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

"*The management of the Council'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.*"

2.2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate: The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital Receipts: Money obtained on the sale of a capital asset.
CD's: Certificates of Deposits with banks and building societies.

Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
CPI : Consumer Price Index – the UK’s main measure of inflation.
Credit Rating: Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.
Federal Reserve: The US central bank. (Often referred to as “the Fed”).
General Fund: This includes most of the day-to-day spending and income.
Gilts: Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’: being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
IFRS: International Financial Reporting Standards.
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower’s so called ‘option’ is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF):

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Multilateral Development Banks:

See Supranational Bonds below.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow 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.

Premiums and Discounts:

In the context of local authority borrowing,

(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and

(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI : Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
T-Bills: Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.
Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment instrument.

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