Governance, Audit, Risk Management and Standards Committee AGENDA

DATE: Thursday 29 January 2015

TIME: 7.30 pm

VENUE: Committee Rooms 1 & 2, Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chair: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali	Barry Macleod-Cullinane (VC)
Nitin Parekh	Amir Moshenson
Primesh Patel	Bharat Thakker

Reserve Members:

1. Kiran Ramchandani	1. Kanti Rabadia
2. Jeff Anderson	2. Pritesh Patel
3. Kairul Kareema Marikar	3. Chris Mote
4. Ms Pamela Fitzpatrick	

Contact: Vishal Seegoolam, Senior Democratic Services Officer
Tel: 020 8424 1883 **E-mail:** vishal.seegoolam@harrow.gov.uk

Harrow COUNCIL
LONDON

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

3. MINUTES (Pages 5 - 8)

That the minutes of the meeting held on 1 December 2014 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, Monday 26th January 2015. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. STANDARDS COMPLAINTS PROCEDURE (Pages 9 - 32)

Report of the Director of Legal and Governance Services.

9. INFORMATION REPORT: TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16 (Pages 33 - 66)

Report of the Director of Finance and Assurance.

10. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

AGENDA - PART II - NIL

* DATA PROTECTION ACT NOTICE

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

This page is intentionally left blank

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE

MINUTES

1 DECEMBER 2014

Chair:	* Councillor Antonio Weiss	
Councillors:	* Ghazanfar Ali	* Nitin Parekh
	* Barry Macleod-Cullinane	* Primesh Patel
	* Amir Moshenson	* Bharat Thakker

* Denotes Member present

27. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

28. Declarations of Interest

RESOLVED: To note that the following interests were declared:

<u>Agenda Item 8 – Treasury Management Strategy Statement and Annual Investment Strategy: Mid-Year Review</u>

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was a member of the London Councils' Pension Scheme. He would remain in the room whilst the matter was considered and voted upon.

29. Minutes

The Chair advised that a response had been provided on the issue of naming officers in the minutes of the Committee and suggested that officers be named by their job titles only. It was agreed that this suggestion be referred back to the Director of Legal and Governance Services for his consideration.

A Member also commented that the minutes of the meeting held on 17 September 2014 had not made reference to his comment that in his opinion, the Council's auditors had said that there had been no impact caused as a result of the departure of the Chief Executive. It was agreed that this be referenced as part of this meeting's minutes.

RESOLVED: That the minutes of the meeting held on 17 September 2014 be taken as read and signed as a correct record.

30. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

31. References from Council and other Committees/Panels

There were none.

RESOLVED ITEMS

32. Information Report - Treasury Management Strategy Statement and Annual Investment Strategy: Mid-Year Review 2014-15

The Committee received a report, presented by the Director of Finance and Assurance, which set out the mid-year review of treasury management activities for 2014/15.
RESOLVED: That the report be noted.

33. Information Report - Annual Audit Letter

The Committee received a report, presented by the Director of Finance and Assurance, which provided an opportunity to consider the Annual Audit Letter.

A Member of the Committee commented that it would be useful for the Committee to write to the Council's auditors to seek clarification on their views in relation to the effect of the deletion of the Chief Executive post. Upon a vote this proposal was not agreed.

RESOLVED: That the report be noted.

34. Information Report - Corporate Anti-Fraud Team (CAFT) Mid Year Report 2014-15

The Committee received a report, presented by the Corporate Anti-Fraud Service Manager, which detailed the mid-year Corporate Anti-Fraud Team (CAFT) performance against the Service Fraud Plan for 2014/15. It also provided information about the future work of the CAFT since benefit fraud work has transferred to the Department for Work & Pensions.

During the presentation of the report, the Committee was asked to consider from a fraud risk perspective where in their opinion the priorities existed in both the short term and medium to longer term. The Chair commented that it would also be a good idea to circulate a note to all Members to seek their views on relevant priorities.

RESOLVED: That the report be noted.

35. Information Report - Internal Audit Mid-Year Report 2014/15

The Committee received a report, presented by the Head of Internal Audit, which set out progress against the 2014/15 Internal Audit plan and key issues arising from work undertaken.

Members commented that in the future they would like the report to include the most up to date information to ensure that they were considering the most recent data.

Upon a request by a Member, officers undertook to provide an update at the next meeting on issues relating to Creditors' Ledgers.

During the discussion on this item, the Committee agreed to exclude the press and the public when discussing an issue relating to whistleblowing at two schools. This was because the information involved the likely disclosure of Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime as defined in Part I of Schedule 12A to the Local Government Act 1972.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.38 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

This page is intentionally left blank

REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	29 January 2015
Subject:	Standards Complaints Procedure
Responsible Officer:	Hugh Peart Director of Legal and Governance Services
Exempt:	No
Wards affected:	All Wards
Enclosures:	Appendix 1 – Current Model Procedure and Flow Chart (Arrangements for Dealing with Standards Allegations under the Localism Act 2011) Appendix 2 – Proposed Model Procedure and Flow Chart (Making A Complaint About A Councillor) Appendix 3 – Proposed Constitutional Changes

Harrow COUNCIL
LONDON

Section 1 – Summary and Recommendations

This report sets out proposals to revise the procedure relating to complaints against Councillors.

Recommendations:

The Committee is requested to recommend to Full Council that:

1) The new procedure for dealing with complaints against Councillors, as contained in Appendix 2 to this report, be agreed;

2) That a new Standards Working Group be established;

3) That the Assessment Working Group and Hearing Working Group be disbanded;

4) That the Assessment Sub-Committee and Hearing Review Sub-Committee be disbanded;

5) That the Council delegate to the Monitoring Officer the power to make decisions on complaints as set out in the procedure contained in Appendix 2 to the report;

6) That the Constitutional amendments contained in Appendix 3 to this report be agreed.

Section 2 – Report

Background

1. The requirement to have arrangements to deal with complaints made against Councillors is set out in Section 28 of the Localism Act 2011.

2. The Localism Act 2011 also requires the Council to promote and maintain high standards of conduct by members and co-opted members of the authority. A new code of conduct based on the seven 'Nolan principles' of public life was agreed by council on 5 July 2012 and also covers the registration of pecuniary interests, the role of an 'independent person' to investigate alleged breaches, and sanctions to be imposed on any councillors who breach the code.

3. However, the action that can now be taken by the Council against any Councillor found to have breached the Code of Conduct is limited with the most serious sanction being censure or criminal prosecution pursued by the Police for deliberately withholding or misrepresenting a financial interest.

Current situation

4. Full Council adopted the current procedure to deal with complaints against Councillors on 5 July 2012. This is detailed in Appendix 1 to this report.

5. Appendix 2 to this report details the proposed new procedure to deal with complaints against Councillors.

6. The main changes include the following:

   - Strengthening the filter process by the Monitoring Officer in consultation with the Independent Person. Currently only complaints that do not fall within the scope of the code of conduct or are considered to be vexatious can be filtered out. Under the new proposals the power would also extend to frivolous complaints, complaints which are more than 6 months old (unless there are exceptional circumstances) or which do not merit further investigation on public interest grounds;

   - The abolition of the Assessment and Hearing Working Groups, the Assessment Sub-Committee and Hearing Review Sub-Committee;

   - The establishment of a Standards Working Group to make recommendations to the Monitoring Officer about whether there has been a breach of the Code of Conduct or not, whether further investigation is required and whether a Local Hearing should be held. Where the Monitoring Officer decides that a Local Hearing should be held it will be conducted by the Standards Working Group;

   - A new delegation to this Committee to consider a referral from the Monitoring Officer where he/she disagrees with the recommendations from a Standards Working Group following a Local Hearing.

7. Appendix 3 to this report details the consequential constitutional amendments that will be required if the proposed new complaints process is adopted.

Why a change is needed

8. Whilst as a general rule it is important to deal robustly with complaints of a breach of the code of conduct, on occasion complaints are received which do not merit the inevitable expenditure of time and money which investigation and possibly a hearing would involve. The new proposal strengthens the Monitoring Officers powers, in consultation with the Independent Person, to filter out such complaints and ensure that the process allows a proportionate response to alleged breaches of the code.

9. The new process is also simplified in terms of the number of stages and different hearings which can be involved. This should be easier for the public to understand.

10. The new process will reduce officer time spent on standards complaints and as a result save money.

Financial Implications

11. The proposed new procedure for dealing with complaints against Councillors would be implemented and contained within existing budgets.

Risk Management Implications

Risk included on Directorate risk register? Yes/No (Delete as appropriate)

Separate risk register in place? No

The Council must have a Code of Conduct and a procedure for dealing with complaints against Councillors. These are requirements of the Localism Act 2011.

Equalities implications

Was an Equality Impact Assessment carried out? No

If no, state why an EqIA was not carried out below:

The proposed new procedure will allow all members of the public and stakeholders to have access to a system where they can easily voice concerns about the conduct of Councillors.

Council Priorities

A transparent and robust complaints procedure against Councillors contributes towards all of the Council's Corporate Priorities as it promotes the integrity of the Council as a whole.

Section 3 - Statutory Officer Clearance

Name: Steve Tingle Date: 16 January 2015	X	on behalf of the Chief Financial Officer
Name: Jessica Farmer Date: 12 January 2015	X	on behalf of the Monitoring Officer

Ward Councillors notified:	**NOT APPLICABLE**

Section 4 - Contact Details and Background Papers

Contact: Jessica Farmer, Head of Legal Practice, 020 8424 1889

Background Papers: Localism Act 2011

This page is intentionally left blank

Arrangements
for dealing with standards allegations under the
Localism Act 2011

1 Context

These "Arrangements" set out how you may make a complaint that an elected or co-opted member of this authority has failed to comply with the authority's Code of Conduct, and sets out how the authority will deal with allegations of a failure to comply with the authority's Code of Conduct. Under Section 28(6) and (7) of the Localism Act 2011, the Council must have in place "arrangements" under which allegations that a member or co-opted member of the authority, or of a Committee or Sub-Committee of the authority, has failed to comply with that authority's Code of Conduct can be investigated and decisions made on such allegations. Such arrangements must provide for the authority to appoint at least one Independent Person (IP), whose views must be sought by the authority before it takes a decision on an allegation which it has decided shall be investigated, and whose views can be sought by the authority at any other stage, or by a member against whom an allegation has been made.

2 The Code of Conduct

The Council has adopted a Code of Conduct for members.

3 Making a complaint

If you wish to make a complaint, please write or email to –
"The Monitoring Officer"
Civic Centre
PO Box 2
Station Road
Harrow
HA12UH
Or – standards.monitoringofficer@harrow.gov.uk

The Monitoring Officer is a senior officer of the authority who has statutory responsibility for maintaining the register of members' interests and who is responsible for administering the system in respect of complaints of member misconduct. In order to ensure that we have all the information which we need to be able to process your complaint, please complete and send us the model complaint form, which can be downloaded from the authority's website, next to the Code of Conduct, and is available on request from Reception at the Civic Offices. Please do provide us with your name and a contact address or email address, so that we can acknowledge receipt of your complaint and keep you informed of its progress.

If you want to keep your name and address confidential, please indicate this in the space provided on the complaint form, in which case we will not disclose your name and address to the member against whom you make the complaint, without your prior consent. The authority does not normally investigate anonymous complaints, unless there is a clear public interest in doing so. Your complaint must be made in writing. The Monitoring Officer will acknowledge receipt of your complaint within 5 working days of receiving it, and will keep you informed of the progress of your complaint.

4 Will your complaint be investigated?

The Monitoring Officer in consultation with the Independent Person is able to filter out complaints that do not fall within the code of conduct or are considered to be vexatious. If the Monitoring Officer does not use his/her delegated authority then the complaint proceeds to the Assessment Working Group. Where the Monitoring Officer has taken a decision, he/she will inform you of his/her decision and the reasons for that decision. Where he/she requires additional information in order to come to a decision, he/she may come back to you for such information, and may request information from the member against whom your complaint is directed. This member will be asked to put their response about your complaint in writing to the Monitoring Officer. If your complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

If you are willing for your complaint to be dealt with by way of mediation then this option will be given to you if the Monitoring Officer feels that this is appropriate.

If the Monitoring Officer considers that the complaint does fall within the Code and is not vexatious, the matter will be passed to the Assessment Working Group (AWG).

The AWG is an informal advisory group. The meetings are usually not open to the public. It is chaired by an Independent Person. The Working Group will receive written representations from both parties.

The AWG will consider the complaint and give a view about whether an investigation should take place.

The Monitoring Officer will consider the view of the AWG and will take one of the following decisions:

- that an investigation should not take place, in which case the matter will proceed no further; or
- That the matter should be investigated; or
- Not to exercise his/her power to decide the matter.

If the Monitoring Officer decides not to use his/her delegated powers, the matter will pass to the Assessment Sub-Committee (ASC) which is a sub-committee of the Standards Committee The ASC will then decide whether the matter should be investigated or whether no further action should be taken. The Monitoring Officer will contact you to inform you and the Councillor of the decision.

5 How is the investigation conducted?

The Monitoring Officer will appoint an Investigating Officer, who may be another senior officer of the authority, an officer of another authority or an external investigator. The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the nature of your complaint and so that you can explain your understanding of events and suggest what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview. The Investigating Officer would normally write to the member against whom you have complained and provide him/her with a copy of your complaint, and ask the member to provide his/her explanation of events, and to identify what documents s/he needs to see and who s/he needs to interview.

At the end of his/her investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to you and to the member concerned, to give you both an opportunity to identify any matter in that draft report which you disagree with or which you consider requires more consideration.

Having received and taken account of any comments which you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6 What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

The Investigating Officer's report will be put to the Hearing Working Group who will pass on their views to the Monitoring Officer who will then decide whether or not to use his delegated authority to determine that no further action should be taken. The Monitoring Officer will write to you and to the member concerned, notifying you that s/he is satisfied that no further action is required, and give you both a copy of the Investigating Officer's final report. If the monitoring Officer is not satisfied that the investigation has been conducted properly, s/he may ask the Investigating Officer to reconsider his/her report.

7 What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will review the Investigating Officer's report and will then send the matter for local hearing before the Hearing Working Group.

Local Hearing

The Monitoring Officer will report the Investigating Officer's report to the Hearing Working Group which will conduct a local hearing before deciding whether the member has failed to comply with the Code of Conduct and, if so, whether to take any action in respect of the member.

Essentially, the Monitoring Officer will conduct a "pre-hearing process", requiring the member to give his/her response to the Investigating Officer's report, in order to identify what is likely to be agreed and what is likely to be in contention at the hearing, and the Chair of the Hearing Working Group may issue directions as to the manner in which the hearing will be conducted.

At the hearing, the Investigating Officer will present his/her report, call such witnesses as he/she considers necessary and make representations to substantiate his/her conclusion that the member has failed to comply with the Code of Conduct. For this purpose, the Investigating Officer may ask you as the complainant to attend and give evidence to the Hearing Working Group. The member will then have an opportunity to give his/her evidence, to call witnesses and to make representations to the Hearing working Group as to why he/she considers that he/she did not fail to comply with the Code of Conduct.

The Hearing Working Group, with the benefit of any advice from the Independent Person, may conclude that the member did not fail to comply with the Code of Conduct, and so dismiss the complaint. If the Hearing Working Group concludes that the member did fail to comply with the Code of Conduct, the Chair will inform the member of this finding and the Hearing Working Group will then consider what action, if any, it should take as a result of the member's failure to comply with the Code of Conduct. In doing this, the Hearing Working Group will give the member an opportunity to make representations to the Working

Group and will consult the Independent Person, but will then decide what action, if any, to recommend that the Monitoring Officer should take in respect of the matter. If the Monitoring Officer does not agree with the recommendation of the Hearing Working Group then he may not use his delegated powers and the matter will proceed to the Hearing Review Sub Committee which is a formal sub committee. They will consider the findings of the Hearing Working Group and the Monitoring Officer's views and make a decision.

8 What action can the Hearing Review Sub-Committee or the Monitoring Officer take where a member has failed to comply with the Code of Conduct?

The Council has delegated to the Hearing Review Sub-Committee and the Monitoring Officer such of its powers to take action in respect of individual members as may be necessary to promote and maintain high standards of conduct. The Monitoring Officer may only use his delegated powers in accordance with the appropriate scheme of delegation.

Accordingly the Hearings Review Sub-Committee or Monitoring Officer may –

- Report its findings to the Standards Committee and then Council for information and place them on the Council's website;
- Inform the Group Leader (or in the case of an independent member, Council) of its recommendation that a member be removed from any or all Committees or Sub-Committees, or outside body appointments;
- Inform the Group Leader of any recommendations that the member be removed from the Cabinet, or removed from particular portfolio responsibilities;
- Remove the member from outside body appointments;
- Instruct the Monitoring Officer to arrange training for the member;
- Where the breach involves inappropriate use of facilities, withdraw such facilities provided to the member by the Council, such as a computer, website and/or email and internet access; or
- Exclude the member from the Council's offices or other premises, with the exception of meeting rooms necessary for attending Council, Committee and Sub-Committee meetings; or
- Censure the member for the breach, in which case the Monitoring Officer will be asked to write to the Member and a press report will be issued.

9 What happens at the end of the hearing?

At the end of the hearing, the Chair will state the decision of the Hearing Review Sub-Committee as to whether the member failed to comply with the Code of Conduct and as to any actions which the Hearing Review Sub-Committee resolves to take.

As soon as reasonably practicable thereafter, the Monitoring Officer shall prepare a formal decision notice in consultation with the Chair of the Hearing Review Sub-Committee, and send a copy to you, to the member, make that decision notice available for public inspection and report the decision to the next convenient meeting of the Council.

10 Who are the Hearing Review Sub Committee?

The Hearing Review Sub-Committee is a Sub-Committee of the Council's Standards Committee. The meetings are held in public.The Standards Committee has decided that it will comprise a maximum of three members of the Council, including not more than one member of the authority's Executive and comprising members drawn from at least 2 different political parties. Subject to those requirements, it is appointed on the nomination of party group leaders in proportion to the strengths of each party group on the Council.

The Independent Person is invited to attend all meetings of the Hearing Review Sub-Committee and his views are sought and taken into consideration before the Hearing Review Sub-Committee takes any decision on whether the member's conduct constitutes a failure to comply with the Code of conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.

11 Who is the Independent Person?

The IP is a person who has applied for the post following advertisement of a vacancy for the post, and is the appointed by a positive vote from a majority of all the members of Council.

A person cannot be "independent" if he/she –

11.1 Is, or has been within the past 5 years, a member, co-opted member or officer of the authority;
11.2 Is a relative, or close friend, of a person within paragraph 11.1 or 11.2 above. For this purpose, "relative" means –
11.2.1 Spouse or civil partner;
11.2.2 Living with the other person as husband and wife or as if they were civil partners;
11.2.3 Grandparent of the other person;
11.2.4 A lineal descendent of a grandparent of the other person;
11.2.5 A parent, sibling or child of a person within paragraphs 11.2.1 or 11.2.2;
11.2.6 A spouse or civil partner of a person within paragraphs 11.2.3, 11.2.4 or11.2.5;
11.2.7 Living with a person within paragraphs 11.2.3, 11.2.4 or 11.2.5 as husband and wife or as if they were civil partners.

12 Revision of these arrangements

The Council may by resolution agree to amend these arrangements, and has delegated to the Chair of the Hearing Review Sub-Committee the right to depart from these arrangements where he/she considers that it is expedient to do so in order to secure the effective and fair consideration of any matter.

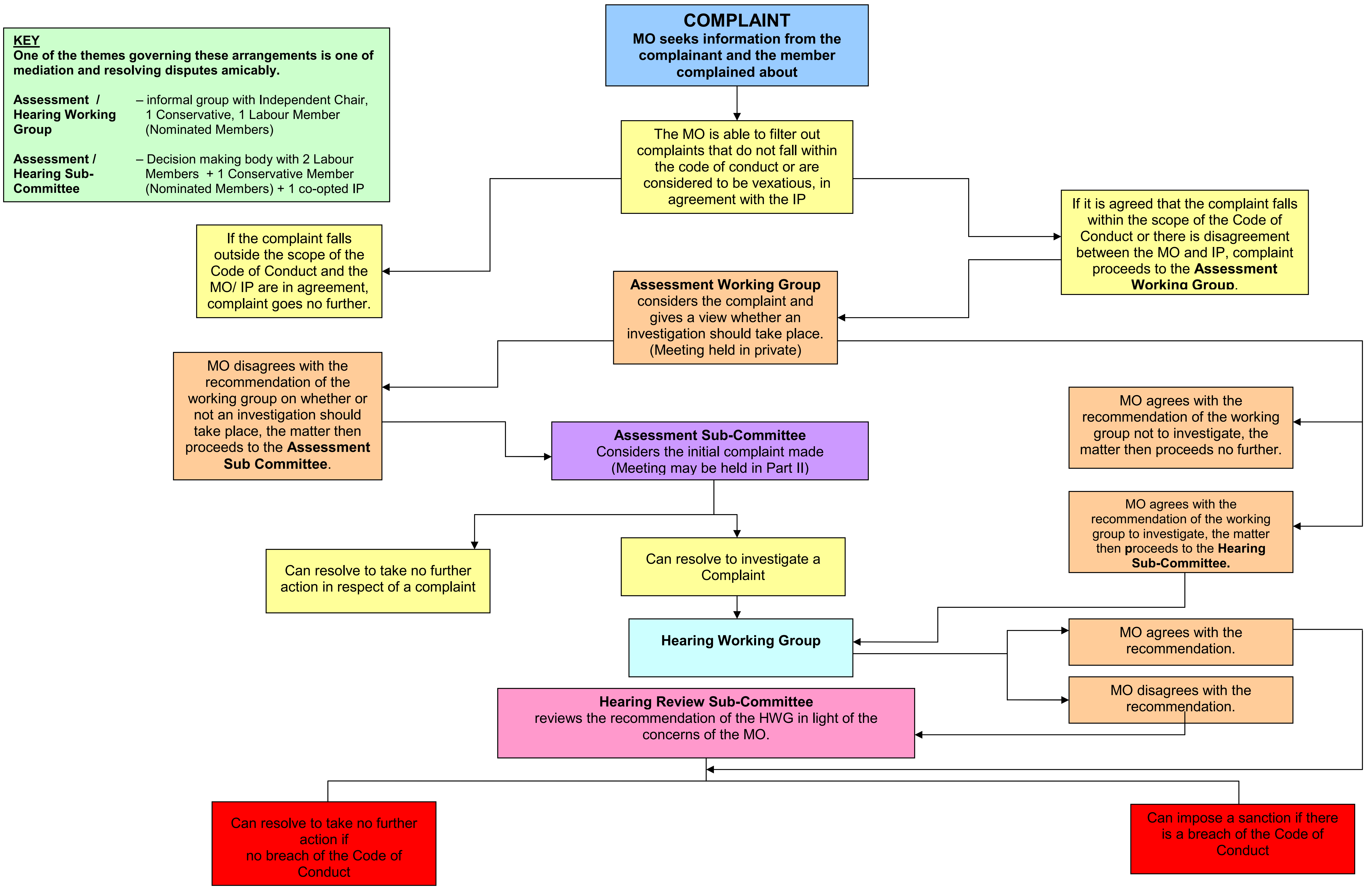
13 Appeals

There is no right of appeal for you as complainant or for the member against a decision of the Monitoring Officer or of the Hearing Review Sub-Committee If you feel that the authority has failed to deal with your complaint properly, you may make a complaint to the Local Government Ombudsman.

This page is intentionally left blank

NEW STANDARDS ARRANGEMENTS FOR DEALING WITH COMPLAINTS

Appendix 1



C:\moderngov\Data\AgendaItemDocs\3\4\5\AI00089543\$r2mx0yfd.doc

This page is intentionally left blank

MAKING A COMPLAINT ABOUT A COUNCILLOR

Introduction

1. This note lets you know how to make a complaint that a member of Harrow Council has breached the Council's code of conduct.

2. The Code of Conduct can be found in the Council's constitution at http://www.harrow.gov.uk/www2/documents/s117835/Part%205A%20Code%20of%20Conduct%20for%20Councillors.pdf

How to make a complaint

3. Complaints must be made in writing. You can use the online form or send your complaint by post or email to:

   The Monitoring Officer
   Civic Centre
   PO Box 2
   Station Road
   Harrow
   HA12UH

   Email: standards.monitoringofficer@harrow.gov.uk

4. You should specify what particular provision of the code of conduct you believe have been breached and the details of what happened.

5. If you want to keep your name and address confidential, please indicate this. There is a space provided for this purpose on the complaint form. If you choose to remain confidential we will not disclose your name and address to the member against whom you make the complaint, without your prior consent. However, please provide us with your name and contact details so we can acknowledge your complaint and keep you informed of progress.

6. The authority does not normally investigate anonymous complaints, unless there is a clear public interest in doing so.

7. The Monitoring Officer will acknowledge receipt of your complaint within 5 working days of receiving it, and will keep you informed of the progress of your complaint.

8. If your complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

9. If you are willing for your complaint to be dealt with by way of mediation then this option will be given to you if the Monitoring Officer feels that this is appropriate.

The Independent Person

10. This note refers to the Independent Person. This is someone appointed by, but independent of, the Council whose role is to carry out certain functions in relation to

complaints against members. The Council is required by law to have at least one Independent Person.

Stage 1 - filtering

11. The Monitoring Officer in consultation with the Independent Person is able to filter out complaints that:

- do not fall within the code of conduct;
- are considered to be frivolous or vexatious;
- are about events which took place more than 6 months' prior to the receipt of the complaint by the Monitoring Officer, unless there are exceptional circumstances; and/ or
- do not merit further investigation on public interest grounds.

12. The public interest test referred to above involves taking into account factors including the seriousness of the complaint, the cost of investigating and hearing the complaint and the sanctions available.

13. The member complained about will be told about the complaint and asked for their comments in writing at this stage. The member also has a right to consult the Independent Person. You may also be asked for further information about your complaint.

Stage 2 – consideration by the Standards Working Group

14. If your complaint is not filtered out, it will be considered by the Standards Working Group (SWG). This is an advisory group each meeting of which will be made up of one member from each political party and an Independent Person who will chair the meeting. Its role is to make recommendations to the Monitoring Officer. Meetings held at this stage will always be held in private.

15. The SWG will consider the complaint and make one of the following recommendations to the Monitoring Officer:

    - that the matter should proceed no further either on the grounds that there is no breach of the Code or that it is not in the public interest to proceed; or

    - That the matter cannot be determined on the facts available and should be investigated and come back before the SWG for further consideration; or

    - That there is a breach of the Code of Conduct and that a sanction should or should not be applied. If it recommends that a sanction should be applied then it should specify the sanction (see paragraph 30 below).

16. The Monitoring Officer will consider the view of the SWG and will decide which of the options above should be followed. If he/she decides that an investigation should take place the matter will progress to stage 3.

Stage 3 - investigation

17. The Monitoring Officer will appoint an Investigating Officer, who may be another senior officer of the authority, an officer of another authority or an external investigator.

18. The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the nature of your complaint and so that you can explain your understanding of events and suggest what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview.

19. The Investigating Officer would normally also write to the member against whom you have complained and provide him/her with a copy of your complaint, and ask the member to provide his/her explanation of events, and to identify what documents s/he needs to see and who s/he needs to interview.

20. At the end of his/her investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to you and to the member concerned, to give you both an opportunity to identify any matter in that draft report which you disagree with or which you consider requires more consideration.

21. Having received and taken account of any comments which you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

Stage 4 – consideration of investigation report

22. The Monitoring Officer will put forward the investigation report to the SWG for consideration. The Group will decide whether to recommend to the Monitoring Officer that a local hearing should be held to consider whether it appears that there has been a breach of the Code of Conduct. Alternatively, the SWG may recommend, on the basis that there is no evidence of a failure to comply with the Code of Conduct, that the Monitoring Officer write to you and the member concerned, notifying you that s/he is satisfied that no further action is required, and give you both a copy of the Investigating Officer's final report.

23. The Monitoring Officer will consider the recommendation of the SWG and make a decision.

Stage 5 – Local Hearing by the Standards Working Group

24. At the start of the hearing, the SWG will decide whether or not the hearing should be heard in public. It will consider whether it is in the public interest to do so.

25. The Investigating Officer will present his/her report, call such witnesses as he/she considers necessary and make representations to substantiate his/her conclusion that the member has failed to comply with the Code of Conduct. For this purpose, the Investigating Officer may ask you as the complainant to attend and give evidence to the Standards Working Group. The member will then have an opportunity to give his/her evidence, to call witnesses and to make representations to the Standards Working Group as to why he/she considers that he/she did not fail to comply with the Code of Conduct.

26. The Standards Working Group, with the benefit of any advice from the Independent Person, will reach a view on whether the member did or did not fail to comply with the Code of Conduct. The Chair will inform the member of this finding and the Standards Working Group will then consider what views and findings of fact and recommendations it should make to the Monitoring Officer. If action is recommended, any such recommendations should be in line with the actions available to the Monitoring Officer (see paragraph 30 below).

27. If the Monitoring Officer disagrees with the recommendations may refer the matter back to the Standards Working Group for further consideration, stating why he/she disagrees with their recommendations.

28. If, after further consideration by the Standards Working Group, the Monitoring Officer still disagrees with its recommendations he/she may make a decision or refer the matter to the Governance, Audit, Risk Management and Standards Committee (GARMSC) for decision.

Stage 6 – Referral to GARMSC

29. If the matter is referred to GARMSC for decision the matter will be considered on the basis of a report setting out the alternative positions of the Monitoring Officer and the Standards Working Group. No evidence will be heard.

What action can the Monitoring Officer or GARMSC take where a member has failed to comply with the Code of Conduct?

30. In the event of a finding that there is a breach of the Code the Monitoring Officer or GARMSC may:

- Report the decision to the Governance Audit Risk Management and Standards Committee (if the Monitoring Officer has made the decision) and then Council for information and place them on the Council's website;
- Inform the Group Leader (or in the case of an independent member, Council) of a recommendation that a member be removed from any or all Committees or Sub-Committees, or outside body appointments;
- Inform the Group Leader of any recommendations that the member be removed from the Cabinet, or removed from particular portfolio responsibilities;
- Remove the member from outside body appointments;
- Arrange training for the member or, if the decision is made by GARMSC, instruct the Monitoring Officer to do so;
- Where the breach involves inappropriate use of facilities, withdraw such facilities provided to the member by the Council, such as a computer, website and/or email and internet access; or
- Exclude the member from the Council's offices or other premises, with the exception of meeting rooms necessary for attending Council, Committee and Sub-Committee meetings; or
- Censure the member for the breach, in which case the Monitoring Officer will write, (following a request from GARMSC if it has made the decision), to the Member and a press report will be issued.

What happens after the Monitoring Officer or GARMSC have made their decision?

31. As soon as reasonably practicable, the Monitoring Officer shall prepare a formal decision notice and send a copy to you, to the member, make that decision notice available for public inspection and report the decision to the next convenient meeting of the Council. This does not apply to decisions made by the Monitoring Officer to filter out a complaint.

Revision of these arrangements

32. The Council may by resolution agree to amend these arrangements

Appeals

33. There is no right of appeal to the Council in respect of any decision made under this process. A complaint may be made to the Local Government Ombudsman, subject to him/her accepting jurisdiction.

Publication of the outcome of complaints

34. The Council maintains information about the outcome of complaints on its website unless the matter is sensitive and the Monitoring Officer therefore believes it should not be made public. The information published in this way in respect of each complaint is:

    a. The member complained about;
    b. The complainant (unless they have asked for their details to remain confidential);
    c. The brief nature of the complaint;
    d. The stage which the complaint finally reached; and
    e. Any sanction applied.

This page is intentionally left blank

Harrow COUNCIL LONDON

COMPLAINTS AGAINST COUNCILLORS PROCEDURE

Appendix 2

KEY
One of the themes governing these arrangements is one of mediation and resolving disputes amicably.

Standards Working Group – informal group with Independent Chair, 1 Conservative, 1 Labour Member (Nominated Members)

MO Monitoring Officer

COMPLAINT
MO seeks information from the complainant and the member complained about

The MO is able to filter out complaints that:

- do not fall within the code of conduct
- are frivolous or vexatious
- are more than 6 months old (unless there are exceptional circumstances)
- are not in the public interest to pursue.

If the complaint is filtered out, the complaint goes no further.

If the complaint is not filtered out, the complaint proceeds to the **Standards Working Group**.

The **Standards Working Group** considers the complaint and the following outcomes can be recommended to the MO:

- that there is no breach of the Code of Conduct and no further action
- that further investigations take place
- that there is a breach of the Code of Conduct and specified sanction(s) should be applied.

MO considers the view of the **Standards Working Group** and decides which options should be followed.

If MO decides that complaint should be investigated and the Standards Working Group concludes that there is evidence of a breach, this will proceed to a local hearing and recommendations made to the MO.

MO agrees with the recommendation of the **Standards Working Group** following the investigation.

MO disagrees with the recommendation of the **Standards Working Group** following the investigation.
MO may refer the matter back to the **Standards Working Group** for further consideration.

If after further consideration by the **Standards Working Group**, the MO still disagrees, he/she may make a decision or refer the matter to the **Governance, Audit, Risk Management and Standards Committee** for decision.

This page is intentionally left blank

Appendix 3 – Proposed constitutional changes

Article 12, paragraph 12.03 - Functions of the Monitoring Officer

(c) **Supporting the Governance Audit Risk Management and Standards Committee in respect of standards and advising on the Code of Conduct**

The Monitoring Officer will contribute to the promotion and maintenance of high standards of conduct through provision of support to the Governance Audit Risk Management and Standards Committee. He or she will also provide advice to Members of the Council and act as the proper officer to receive complaints of failure to comply with the Code of Conduct. He or she will also make decisions about complaints as set out in the delegations under Part 3B.

Part 3B – Delegations to Officers – Monitoring Officer, paragraph 7

Monitoring Officer	**Statutory source of function**
7 Key role in framework for local determination of complaints namely to: a. Decide, in consultation with an Independent Person, whether to dismiss complaints that are outside the Code of Conduct, , are considered to be frivolous or vexatious, are about events which took place more than 6 months prior to the receipt of the complaint by the Monitoring Officer, unless there are exceptional circumstances and/or do not merit further investigation on public interest grounds. . b. Decide, taking into account the recommendations of the Standards Working Group following initial consideration of a complaint which of the following options should be pursued: • the complaint should be investigated, • the matter should proceed no further on the grounds that there is no breach of the Code or that it is not in the public interest to proceed • there has been a breach of the Code and that a particular sanction should be applied • That further information should be supplied to the Standards Working Group c. Appoint an investigator to investigate allegations of misconduct of Members in	Sections 28 – 34 Localism Act 2011

Deleted: and subject to their¶ agreement

Deleted: or

Deleted: If agreement¶ with the Independent Person cannot be¶ reached, the decision shall not be taken¶ by the Monitoring Officer but instead be¶ referred to the Assessment Sub-¶ Committee for decision.

Deleted: view

Deleted: Assessment

Deleted: Group

Deleted: and

Deleted: ¶ subject to agreement with its view

Deleted: whether

Deleted: a

Deleted: <#>. If the Monitoring Officer¶ does not agree with the view of the¶ Assessment Working Group then the¶ decision shall not be taken by the¶ Monitoring Officer but instead be¶ referred to the Assessment Sub-¶ Committee for decision.

Deleted: I

accordance with the Standards framework. d. Decide, following consideration of an investigation report by the Standards Working Group and taking into account their recommendations, whether a hearing should be held by the Standards Working Group or whether no further action is required. e.Decide, following a local hearing by the Standards Working Group and taking into account their recommendations, whether to take action against a member on the grounds that he or she has breached the Code of Conduct or to take no action. f. If he or she feels it appropriate, refer a matter back to the Standards Working Group for further consideration where he or she disagrees with their recommendations following a local hearing h. If he or she feels it appropriate, refer a matter to the Governance Audit Risk Management and Standards Committee for decision. This can be done where he or she disagrees with the recommendations of the Standards Working Group following a local hearing and further consideration as set out in f. above. e. Advise Members, officers and the public on the operation of the Code and how alleged breaches should be investigated. In exercising the delegations under a. - b. and d. – e to seriously consider the view of the Independent Person or Standards Working Group as appropriate.	

Deleted: d

Deleted: and

Deleted: Assessment

Part 3A

1) Terms of Reference – Governance Audit Risk Management and Standards Committee

   Add:

   'On referral from the Monitoring Officer, to decide whether to take action against a member for breach of the Code of Conduct and if so, to decide what action should be taken.'

2) Delete all references to Hearing Sub-Committee and Assessment Sub-Committee.

REPORT FOR: **GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**

Date of Meeting: 29 January 2015

Subject: **INFORMATION REPORT**
Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2015/16

Responsible Officer: Simon George, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 - Legislation and Regulations Impacting on Treasury Management
Appendix 2 - Treasury Management Delegations and Responsibilities
Appendix 3 - Interest Rate Forecasts 2015 - 18
Appendix 4 - Economic Background

Section 1 – Summary and Recommendations

This report sets out the Council's Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015/16.

Recommendation:

The Committee is requested to review and comment on:

- Treasury Management Strategy Statement and Prudential Indicators for 2015/16;
- Minimum Revenue Provision Policy Statement for 2015/16;
- Annual Investment Strategy for 2015/16.

Section 2 – Report

1. INTRODUCTION

Harrow COUNCIL LONDON

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

   "The management of the local authority'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."

   The Council has adopted this definition.

2. The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and Treasury Management Code of Practice, to set Treasury and Prudential Indicators for the next three years and to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5. The Act, the Codes and subsequent Investment Guidance (2010) requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. In 2011 CIPFA updated both their Code of Practice and Prudential Code and, in 2013 issued revised guidance notes. All the changes are fully reflected in this strategy statement. At the request of the former Governance, Audit and Risk Management Committee a summary of the relevant legislation, regulations and guidance is included as Appendix 1.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Code of Practice, increases in capital expenditure should be limited to a level whereby increases in charges to revenue from:

   - increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
   - any increases in running costs from new capital projects

are affordable within the projected income of the Council for the foreseeable future.

7. The 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.

8. The Council recognises 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 comprehensive performance measurement techniques, within the context of effective risk management.

1.2 CIPFA Requirements

9. The Council has formally adopted CIPFA's Code of Practice on Treasury Management (revised November 2011). The primary requirements of the Code are as follows:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

    - Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

    - Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

1.3 Reporting Requirements

10. As introduced above, the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Cabinet and the Governance, Audit, Risk Management and Standards Committee (GARMSC).

11. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and treasury management practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which consists of the Head of Technical Finance and Accountancy and the Treasury and Pension Fund Manager, to monitor the treasury management activity and market conditions.

12. Further details of responsibilities are given in Appendix 2.

1.4 Training

13. The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.
14. The Council's Treasury Management consultants will be asked to provide a training session for all Members of GARMSC and other interested Members and other training opportunities will be offered as appropriate.
15. The training needs of treasury management officers are periodically reviewed as part of the Learning and Development programme. The officers attend various seminars and conferences throughout the year.

1.5 Treasury management consultants

16. The Council has engaged Capita Asset Services, Treasury Solutions as its external treasury management adviser.

17. The Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon external service providers.

18. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

1.6 Treasury Management Strategy for 2015/16

19. The Strategy covers:-

Capital issues

- the capital plans and the prudential indicators;
- the MRP policy.

Treasury management issues

- policy on use of external service providers;
- the current treasury position;
- the borrowing strategy;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy.

20. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

21. It is not considered necessary to produce a separate treasury strategy for the Housing Revenue Account (HRA) in light of the co-mingling of debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report.

2. CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

22. The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the prudential

indicators, which are designed to assist Members' overview and confirm capital expenditure plans. The values shown in the tables below for 2013-14 and 2014-15 are actual and forecast outturn respectively and not the strategy for those years.

2.1 Capital expenditure

23. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. Amendments may be necessary in the light of decisions taken during the budget cycle

Table 1 Capital Expenditure and Funding

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Non - HRA	29,069	68,156	57,061	48,102	38,672
HRA	6,261	6,771	21,656	13,137	15,315
TOTAL	**35,330**	**74,927**	**78,717**	**61,239**	**53,987**
Funding:-					
Grants	9,404	37,853	29,142	19,457	12,967
Capital receipts	4,434	2,417	9,359	1,125	3,913
Revenue financing	6,748	6,058	9,638	8,302	9,046
Section 106 / Section 20 contributions	76	499	923	110	2,356
TOTAL	**20,662**	**46,827**	**49,062**	**28,994**	**28,282**
Net financing need for the year	**14,668**	**28,100**	**29,655**	**32,245**	**25,705**

2.2 The Council's borrowing need (Capital Financing Requirement)

24. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

25. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

26. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a funding facility and so the Council is not required to borrow separately for these schemes. The Council currently has £22m of such schemes within the CFR.

Table 2 Capital Financing Requirement

	2013/14	2014/15	2015/16	2016/17	2017/18

	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March					
Non – HRA	244,215	256,168	270,118	282,616	290,380
HRA	149,538	149,508	151,214	154,784	154,754
TOTAL	**393,753**	**405,676**	**421,332**	**437,400**	**445,134**
Annual change in CFR					
Non – HRA	26	11,953	13,950	12,498	7,764
HRA	-36	-30	1,706	3,570	-30
TOTAL	**-10**	**11,923**	**15,656**	**16,068**	**7,734**

Table 3 Capital Financing Requirement – reasons for annual change

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Net financing need	14,114	27,600	29,155	31,745	25,205
Lease liability	554	500	500	500	500
Less MRP for PFI and Leases	-2,040	-2,035	-2,034	-2,035	-2,035
Less MRP	-12,638	-14,142	-11,965	-14,142	-15,936
TOTAL	**-10**	**11,923**	**15,656**	**16,068**	**7,734**

a) General Fund CFR increases over the five years from £244m to £290m reflecting the schools re-building and improvements programme and environmental improvements. Through a special determination the debt limit for the HRA has been increased to £154.8m and work will be carried out in line with this increase.

b) It is anticipated over this period that the increase in CFR requirements and the additional HRA expenditure can be met from existing cash balances.

2.3. Minimum Revenue Provision

27. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the period during which such assets are used to provide services to the local community. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by Council Tax and housing rents.

28. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (the Regulations) require the Council to approve a Minimum

Revenue Provision (MRP) Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the Statement is to ensure the provision is prudent, allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure benefits. *The Council is recommended to approve the following MRP Statement:*

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the 'Regulatory Method' (option 1) outlined in CLG guidance on MRP. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.

- In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

- A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

- Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

- Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

- As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

- Repayments included in annual PFI or finance leases are applied as MRP.

- Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

- Under Treasury management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.

2.4 Affordability Prudential Indicators

29. The previous sections cover the overall capital expenditure and financing requirements but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5 Ratio of Financing Costs to Revenue Stream

30. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

Table 5 Ratio of Financing Costs to Revenue Stream

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	%	%	%	%	%
Non - HRA	13	14	13	15	17
HRA	45	45	41	40	39

2.6 Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

31. This indicator identifies the revenue costs associated with proposed capital programme and the impact on Council Tax and Housing Rents.

Table 6 Incremental Impact of Capital Investment Decisions

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£	£	£	£	£
Incremental impact of capital investment decisions					
Increase in Council Tax (band D) per annum	21.71	42.04	42.49	44.59	33.35
Increase in average housing rent per week	2.65	-2.92	1.34	-0.04	-0.07

2.8 Local HRA indicators

32. The latest CIPFA guidance suggests that the Council be aware of the following ratios when making its treasury management decisions.

Table 7 HRA Ratios

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	**Forecast Outturn**	**Estimate**	**Estimate**	**Estimate**
Debt (CFR) (£m)	149.5	149.5	151.2	154.8	154.8
Gross Revenue Stream (£m)	31.1	31.9	32.2	33.2	34.1
Ratio of Gross Revenue Stream to Debt (%)	**21**	**21**	**21**	**21**	**22**
Average Number of Dwellings	4,933	4,898	4,877	4,867	4,843
Debt outstanding per dwelling (£)	**30,306**	**30,560**	**31,000**	**31,806**	**31,964**

The ratio of gross revenue stream to debt shows a gradual increase which indicates that the ability of HRA to finance its debt is improving.

. As the number of dwellings reduces over the period, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

2.9 Housing Revenue Account (HRA) Major Repairs Allowance (MRA)

33. The National Subsidy system was replaced by Self Financing on 01 April 2012 as part of the Government's reform of the HRA. As a result, the Council will make a charge for depreciation in respect of its dwellings calculated on a componentised basis, which will be counted as a genuine charge against the HRA. Under the National Subsidy system, the Council made a charge equal to the Major Repairs Allowance receivable from Central Government thereby ensuring a nil overall effect for depreciation.

34. As the value of housing stock is expected to increase broadly in line with inflation, HRA debt as a proportion of the value of housing stock will decline.

3. BORROWING

35. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

36. The latest position on actual borrowings and investments is as shown below:

Table 8 Treasury Position as at 31 December 2014

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	218.5		
	Market	115.8	334.3	**4.25**
Variable rate funding			0	
Other long term liabilities (PFI & leases)			21.8	
Total Debt			**356.1**	
Total Investments			**132.5**	**1.06**

37. The Council has borrowed £83.8 million under Lender Option, Borrower Option (LOBO) structures with maturities between 2050 and 2078. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost.

38. The Council's treasury portfolio position with forward projections is summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any over or under borrowing.

Table 9 Changes to Gross Borrowing

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Debt 1st April	350,358	340,293	334,293	334,293	334,293
Expected change in debt	-10,065	-6,000	0	0	-10,000
Other long term liabilities (OLTL) 1st April	23,923	21,841	20,306	18,772	17,237
Expected change in OLTL	-2,082	-1,535	-1,534	-1,535	-1,535
Actual gross debt at 31st March	**362,134**	**354,599**	**353,065**	**351,530**	**339,995**
Capital Financing Requirement 31st March	**393,753**	**405,676**	**421,332**	**437,400**	**445,134**
Under / (over) borrowing	**31,619**	**51,077**	**68,267**	**85,870**	**105,139**

39. Debt outstanding should not normally exceed CFR.

40. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early

borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

41. The Director of Finance and Assurance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

42. The table below shows the net borrowing after investment balances are taken into account. Net debt is forecast to increase as the capital programme continues to be financed from existing cash resources.

Table 10 Net Borrowing

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
brought forward 1 April	273,284	230,942	269,107	282,736	297,695
carried forward 31 March	230,942	269,107	282,736	297,695	306,031
Change in net borrowing	**-42,342**	**38,165**	**13,629**	**14,959**	**8,336**

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary

43. This is the limit which external debt is not normally expected to exceed.

44. The boundary is based on current debt plus anticipated net financing need for future years.

The Authorised Limit for External Debt.

45. This is a further key prudential indicator which represents a control on the maximum level of borrowing. It represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. It relates to the financing of capital plans by both external borrowing and other forms of liability, such as credit arrangements.

46. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 11 Operational boundary and authorised limit

	2013/14	2014/15	2015/16	2016/17	2017/18

	£m	£m	£m	£m	£m
Authorised Limit for external debt					
Borrowing and finance leases	394	406	421	437	445
Operational Boundary for external debt					
Borrowing	340	334	334	334	324
Other long term liabilities	22	21	19	17	16
Total	362	355	353	351	340
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing	340	334	334	334	324
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	0	0	0	0	0
Upper limit for principal sums invested over 364 days*	25	40.5	40.5	40.5	40.5

* From 2014/15 includes a potential loan facility of £0.5m for HB Public Law Ltd.

HRA Debt Limit

47. Separately, the Council is also limited to a maximum HRA CFR (Debt limit) through the HRA self-financing regime. This limit is shown in the table below.

<u>Table 12 HRA Debt Limit</u>

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
HRA Debt Limit	149,648	149,648	151,384	154,984	154,984
HRA CFR	149,537	149,525	151,231	154,801	154,771
Headroom	111	123	153	183	213

3.3 Prospects for Interest Rates

48. The treasury management adviser has provided the commentary in the remainder of this section 3.3 and a more detailed economic commentary is included as Appendices 3 and 4

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40

Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- *Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;*
- *As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor*

confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- *Investment returns are likely to remain relatively low during 2015/16 and beyond;*
- *Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;*
- *There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.*

3.4 Borrowing Strategy

49. As shown in Table 9 above, currently the Council has a debt portfolio of £334m, mainly long term, with an average maturity of 37 years. Cash balances have remained high and at 31 December 2014 were £132.5m. With the investment portfolio yielding around 1% and the average cost of debt 4.2%, there is a substantial short term cost to carrying excessive debt. The same picture is true if investment rates are compared with new borrowing rates.

50 As shown in Table 9 above the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent with investment returns low and counterparty risk relatively high.

51. For the next three years the capital programme will continue to be funded to a large extent from grants and revenue resources and there is not likely to be a need for further borrowing. The only foreseen circumstances in which new long term borrowing in the next three years might be required therefore, are either if part of the LOBO portfolio had to be refinanced early, or if made available to fund new affordable housing development on the basis that there was no revenue impact on the General Fund. Even then, the preference would be to reduce investment balances unless the gap between investment and borrowing rates has narrowed.

52. It may be necessary to resort to temporary borrowing from the money markets or other local authorities to cover mismatches in timing between capital grants and payments. However with several Government grants now paid early in the financial year this is not very likely.

53. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury management operations. The Director of Finance and Assurance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

54. The Council has adopted a single pooled approach for debt. Allocations to HRA are based on its CFR, with interest charged to HRA at the average rate on all external borrowing. Longer term, the HRA's ability to repay borrowing will depend on future revenues and capital expenditure plans.

3.6 Treasury Management Limits on Activity

55. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and improve performance.

Upper limit on variable interest rate exposure

56. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. As shown in Table 11 above the Council does not expect to undertake any borrowing on this basis.

Upper limit on fixed interest rate exposure

57. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. The Council's limits are shown in Table 11 above

Maturity Structure of Borrowing

58. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

59. The Council has no variable rate borrowing and the comments below relate only to its fixed rate portfolio.

60. In the table below, the maturity structure for the LOBO debt, in accordance with CIPFA Guidance, is shown as the first date that the interest rate can be increased.

Table 13 Maturity Structure of Fixed Rate Borrowing

	As at 31.12.2014	Upper limit %	Lower limit %

	%		
Under 12 months	25.1	20	0
12 months to 23 months	0.0	20	0
24 months to under 5 years	9.6	30	0
5 years to under 10 years	1.5	40	5
10 years and over	63.8	90	30

61. The current limits do not fully reflect the maturity structure of the LOBOs all of which could theoretically be repayable within a year. Additionally, adjusting the borrowing profile at this stage is not considered to be either economic or desirable hence the opportunity to comply with some of the limits is very constrained.

62. Cabinet will therefore be asked to agree:
- The upper limit for borrowing of under 12 months be increased to 30%
- The lower limit for borrowing of 5 to under 10 years be reduced to 0%

3.7 Policy on Borrowing in Advance of Need

63. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

64. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.8 Debt rescheduling

65. The reasons for any rescheduling to be considered will include:
- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

66. Opportunities to reduce the cost of debt by premature repayment or to improve the maturity profile are kept under review in discussion with the Council's treasury management adviser. Early repayment of market loans is by negotiation. For PWLB loans, there are daily published prices for early repayment that allows analysis of the opportunities for restructuring. There is currently a spread which has generally made restructuring uneconomic. With capital expenditure plans being constrained, the level of required debt will be monitored and if deemed excessive, early redemption will be considered.

67. Should any of the LOBO loans with interest rate reset dates in 2015-16 (£83.8 m) require refinancing, the most likely source will be a combination of internal cash and

external borrowing to protect the budget. The ratio will depend on the relative cost of the existing and replacement debt.

68. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

69. The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

70. In accordance with the above guidance and in order to minimise the risk to investments, the Council below clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. The treasury management adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.

71. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its adviser to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

72. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable divesification and minimise risk.

73. Investment instruments identified for current use are listed in paragraphs 83 and 84 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

74. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

75. The Director of Finance and Assurance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

76. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

77. Credit rating information is supplied by the treasury management adviser on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

78. Recently the Council's treasury management adviser has provided advice affecting some of the Council's most significant counterparties as follows:

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology

79. The Council's criteria for an institution to become a counterparty are:

Specified Investments

80. These are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the lender has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support AA- Viability UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

81. Non-specified investments are any other type of investment (i.e. not defined as Specified above). They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out below.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support A Viability	In-house	50%	3 months

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
	UK or AAA Sovereign			
Callable Deposits	A Long Term F1 Short term 1 Support	In-house	20%	3 months
UK nationalised Banks [Lloyds / HBOS]	F1 Short-term 1 Support	In-house	50%	36 months
UK nationalised Banks [RBS]	F2 Short-term 1 Support	In-house	50%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption
HB Public Law Ltd		In house	£0.5m	36 months

Unless specified above, individual bank & building society counterparty limits that are consistent with the above limits are approved by the Section 151 Officer in accordance with the Council's Treasury Management Practices.

82. In view of the advice given by the treasury management adviser and quoted in paragraph 78 Cabinet will be recommended to agree to the deletion of the "Viability" criteria included in the tables in paragraphs 80 and 81.

4.3 Country limits

83. The Council has determined that it will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AAA. Currently the only countries meeting this criterion are Australia, Canada, Denmark, Germany, Luxembourg, Norway, Singapore, Sweden and Switzerland. The current UK rating is the second level of AA+. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

84. **In-house funds.** The Council's funds are mainly cash flow derived primarily the General Fund and HRA. Balances are also held to support capital expenditure. From 1st April 2011, pension fund cash balances have been held separately from those of the Council. However, a separate investment strategy has not been developed for the pension fund and all its cash is held on overnight call account with RBS.
Investments are made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

85. **Investment returns expectations.** Bank Rate has remained unchanged at 0.50% since March 2009 and is not forecast to rise until quarter 4 of 2015. Bank Rate forecasts for financial year ends are:

- 2014/15 0.50%
- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

86. As regards returns and potential returns key points made by Capita in Section 3.3 above and of prime significance in the Council's investment strategy are:

- *Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;*
- *Investment returns are likely to remain relatively low during 2015/16 and beyond;*

87. The only amendment proposed to the counterparty policy is explained in paragraph 85 above though close attention will be paid to Government intentions to sell off its stake in Lloyds and RBS. This will gradually remove the additional security offered by Government ownership which is a key element in sustaining the Council's current investment strategy.

88. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. The Council's limit for investments of over 364 days is £40.5m.

89. Throughout 2014-15 to date interest rates for periods of up to a year have remained stable with the Council receiving about 1% for 364 days' investments with Lloyds and 0.25% for the RBS Special Interest Bearing Account. Yields available for periods of 1-3 years have fallen during the year to date.

90. As a consequence of these rates and the maturity of several higher yielding investments the Council's return for the whole year is likely to be close to 1%. Whilst this compares well with the LIBOR benchmark and peer authorities it represents a substantial reduction from the 1.5% earned in 2013-14 and 1.8% earned in 2012-13.

91. As a result of the Council's strategy and the interest rates available the only counterparties actively in use during 2014-15 have been Lloyds and Royal Bank of Scotland Group, Enhanced Money Market Funds and Svenska Handelsbanken. The investment portfolio has inevitably remained concentrated with RBS and Lloyds with 83% of the total portfolio invested with them on 31st December 2014. When opportunities arise consistent with the Council's policies diversification will be sought but it is not anticipated that there will be any significant change during 2015-16.

92. Due to the low interest rates environment and uncertainties around Government funding for banks, setting expected income levels for 2015-16 and beyond is imprecise. Investment income (net of allocations and interest from West London Waste Authority) has been budgeted at £699,000 for 2015/16 (2014/15 £1,052,000).

Financial Implications

93. Financial matters are integral to the report.

Equalities Implications

94. Officers have considered possible equalities impact and consider that there is no adverse equalities impact.

Council Priorities

95. This report deals with the Treasury Management Strategy which is a key to delivering the Council's corporate priorities

Section 3 - Statutory Officer Clearance

Name: Simon George	√	Chief Financial Officer
Date: 15 January 2015		

Ward Councillors notified:	**n/a**

Section 6 - Contact Details and Background Papers

Contact: Ian Talbot (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: N/A

APPENDIX 1

LEGISLATION AND REGULATION IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow

The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing

The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit

The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.
It is for the Council (at a meeting of the full Council) to set its own ‘prudential’ limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing.
However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and forseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits

The Government has retained reserve power to impose ‘longstop’ limits for national economic reasons on all local authorities’ borrowing and these would override authorities’ self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements

Credit arrangements (eg property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest

The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue………….." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security –**
  Investments should be managed prudently with security and liquidity being considered ahead of yield
  Potential counterparties should be recognised as "specified" and "non-specified" with investment limits being defined to reflect the status of each counterparty

- **Investment risk**
  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.
  The use of credit ratings and other risk assessment processes should be explained
  The use of external advisers should be monitored
  The training requirements for treasury management staff should be reviewed and addressed
  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**
  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

APPENDIX 2

Treasury Management Delegations and Responsibilities

The respective roles of the Cabinet, GARMCS, the Section 151 officer, the Treasury Management Group and the Treasury Team are summarised below. Further details are set out in the Treasury Management Practices.

The main responsibilities and delegations in respect of treasury activities are:

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

Governance, Audit, Risk Management and Standards Committee

GARMSC is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Section 151 Officer

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. In particular, the Sector 151 Officer:

- Approves all new borrowing, investment counterparties and limits and changes to the bank mandate,
- Chairs the Treasury Management Group ("TMG"), and
- Approves the selection of treasury advisor and agrees terms of appointment.

Treasury Management Group

Monitors the treasury activity against approved strategy, policy, practices and market conditions.

Approves changes to treasury management practices and procedures.

Reviews the performance of the treasury management function using benchmarking data on borrowing and investment provided by Sector.

Monitors the performance of the appointed treasury advisor and recommends any necessary actions.

Ensures the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Monitors the adequacy of internal audit reviews and the implementation of audit recommendations.

Treasury and Pension Fund Manager

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures and recommends changes to these to the TMG.

Interest Rate Forecasts 2015 – 2018

APPENDIX 3

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

APPENDIX 4

Economic Background

UNITED KINGDOM

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

EUROZONE

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA.

The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

CHINA

Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

JAPAN

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU, US and China.

- A resurgence of the Eurozone sovereign debt crisis.

- Recapitalisation of European banks requiring more government financial support.

- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government

- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.

- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.

- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.