REPORT FOR: CABINET

Date of Meeting:	19 February 2015
Subject:	Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2015/16
Key Decision	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No
Decision subject to Call-in:	No, as the decision is reserved to Council
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 Appendix 4 - Economic Background

Section 1 – Summary and Recommendations

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

Recommendation:
Cabinet is asked to recommend to Council that they approve the Treasury Management Strategy Statement for 2015/16 including:

- the Prudential Indicators for 2015/16;
- Minimum Revenue Provision Policy Statement for 2015/16;
- Annual Investment Strategy for 2015/16;
- 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%;
- The deletion of the "Viability" criteria for Specified and Non-specified investments.

Reason
To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

Section 2 – Report

1. INTRODUCTION

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 compliance with the relevant legislation, regulations, codes and prudential indicators as the prime criterion by which the effectiveness of its treasury management activities will be measured. The effective management and control of risk, recognising the primacy of security and liquidity over yield, is a key component in this compliance.

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.

1.7 Options considered

22. No options were considered beyond those discussed in the report due to the statutory and risk management constraints inherent in treasury management.

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

23. 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 for 2013-14 and 2014-15 are actual and forecast outturn respectively and not the strategy for those years.

2.1 Capital expenditure

24. 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)

25. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total 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.

26. 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.

27. 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

28. 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.

29. 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

30. 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

31. 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

32. 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

2.7 Local HRA indicators

33. 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 is stable. 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.

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

34. 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.

35. As the value of housing stock is expected to increase HRA debt as a proportion of the value of housing stock will decline.

3. BORROWING

36. 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

37. 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**

38. 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.

39. 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**

40. Debt outstanding should not normally exceed CFR.

41. 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.

42. 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.

43. 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

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

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

The Authorised Limit for External Debt.

46. 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.

47. 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	349	347
Other long term liabilities	22	21	19	17	16
Total	362	355	353	366	363
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing	340	406	421	437	445
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

48. 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.

Table 12 HRA Debt Limit

	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

49. 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 commentary was produced on 7 January 2015.

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

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. 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.

3.5 Treasury Management Limits on Activity

56. 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

57. 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

58. 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

59. 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.

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

61. 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

62. 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.

63. Cabinet is therefore asked to recommend to Council 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%

3.6 Policy on Borrowing in Advance of Need

64. 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.

65. 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.

3.7 Debt rescheduling

66. 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).

67. 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.

68. 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.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

70. 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.

71. 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.

72. 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.

73. 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.

74. 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

75. 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.

76. 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.

77. 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.

78. 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.

79. *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

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

Specified Investments

81. 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

82. 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 in the table 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 UK or AAA Sovereign	In-house	50%	3 months
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 £10m 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.

83. In view of the advice given by the treasury management adviser and quoted in paragraph 79 Cabinet is recommended to agree to the deletion of the "Viability" criteria included in the tables in paragraphs 81 and 82.

4.3 Country limits

84. 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

85. **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).

86. **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%

87. 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; and*
    - *Investment returns are likely to remain relatively low during 2015/16 and beyond.*

88. 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.

89. **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.

90. 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.

91. 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.

92. 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.

93. 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 excluding interest from West London Waste Authority) has been budgeted at £699,000 for 2015/16 (2014/15 £1,052,000).

Implications of the recommendations

94. The recommendations primarily relate to the requirements for the Council to comply with statutory duties. However, the content of the report, covering borrowing and investment strategy, has implications for the Council's ability to fund its capital projects and revenue activities.

95. The recommendations do not directly affect the Council' staffing/workforce.

Performance issues

96. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and, therefore, is able to demonstrate best practices for the Treasury Management function.

97. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. Success is measured by compliance with the indicators and the accuracy of future estimates so far as they are within the control of the Treasury Management function.

Environmental Implications

98. There are no direct environmental implications.

Risk Management Implications

99. The identification, monitoring and control of risk are central to the achievement of treasury management objectives and to this report. Potential risks are identified, mitigated and monitored in accordance with Treasury Management Practice Notes approved by the Treasury Management Group.

100. Risks are included in the Directorate Risk Register.

Legal Implications

101. The relevant legal provisions are contained within the body of the report.

Financial Implications

102. Financial matters are integral to the report.

Equalities Implications / Public Sector Equality Duty

103. Officers have considered possible equalities impact and consider that there is no adverse equalities impact as there is no direct impact on individuals

Council Priorities

104. 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 Date: 26 January 2015	X	Chief Financial Officer
Name: Caroline Eccles Date: 22 January 2015	X	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO, as it impacts on all Wards**
EqIA carried out: **EqIA cleared by:**	**NO** **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

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in does not apply as the decision is reserved to Council]*

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

The commentary was produced on 7 January 2015.

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.