REPORT FOR: **CABINET**

Date of Meeting:	14 July 2015
Subject:	Treasury Management Outturn 2014/15
Key Decision:	No
Responsible Officer:	Dawn Calvert, Interim Director of Finance
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1 - Prudential Indicators 2014/15 Outturn Appendix 2 – New Investments Undertaken for Periods of Over 3 Months Appendix 3 – The Economy and Interest Rates Appendix 4 – Counterparty Policy Appendix 5 – Corporate Bonds – Report from Capita Appendix 6 – Proposed Revised Counterparty Policy Appendix 7 – Legislation and Regulations Impacting on Treasury Management Appendix 8 – Treasury Management Delegations and Responsibilities

Harrow COUNCIL
LONDON

Section 1 – Summary and Recommendations

This report sets out the summary of treasury management activities for 2014/15 and recommends some changes to the counterparty policy.

Recommendation

Cabinet is asked to:

(a) Note the outturn position for treasury management activities for 2014/15.

(b) Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

(c) Note the points in paragraph 32 and that officers will investigate new investment opportunities for consideration by Cabinet and Council

(d) Recommend to Council the proposed revised Counterparty Policy as described in Appendix 6.

Reasons:

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

(b) To keep Cabinet Members informed of treasury management activities and performance.

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 is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first main function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. In line with the Treasury Management Strategy Statement 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 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 of those investments followed by liquidity and yield. In 2011 CIPFA updated both their Code of Practice and Prudential Code and, in 2013 issued revised guidance notes. Relevant legislation, regulations and guidance are included as Appendix 7.

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 for the organisation.

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 Reporting Requirements

9. The Council and/or Cabinet are 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 - The first, and most important report is presented to the Council in February and 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 is presented to Cabinet in November and updates 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 report) – This is presented to Cabinet in June/July and 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 with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee.

10 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, during 2014/15, consisted of the Head of Technical Finance and Accountancy and the Treasury and Pension Fund Manager, to monitor the treasury management activity and market conditions.

11. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

12. Under the Code, the Council must give prior scrutiny to all of the above treasury management reports by the Governance, Audit, Risk Management and Standards Committee before they are reported to the Full Council.

13. Further details of responsibilities are given in Appendix 8.

1.3 Matters covered in report

14. The main matters covered in the report are:

- Treasury management outturn
- Treasury position as at 31 March 2015
- Strategy for 2014/15
- Borrowing outturn
- Investment outturn
- Compliance with treasury limits and Prudential Indicators.
- Economic background

1.4 Options considered

15. For the reasons discussed above no options other than those recommended were considered.

2. TREASURY MANAGEMENT OUTTURN

16. There was a favourable variance of £0.1m on the revised capital financing budget of £20.1m as detailed below:-

Table 1: Outturn Summary

	Revised Budget	Outturn	Variation	
	£000	£000	£000	%
Cost of Borrowing	7,960	7,857	-103	0.1%
Investment Income	-1,122	-1,664	-542	-48.3%
Minimum Revenue Provision	13,310	13,819	509	3.8%
Total	**20,148**	**20,012**	**-136**	**-0.7%**

The favourable variance on investment income is due to balances throughout the year being substantially higher than estimated and interest rates a little higher partly offset by a lower level of drawdown (and, therefore interest earned) of the WLWA loan.

17. The returns from the investment portfolio are benchmarked by the treasury management adviser, Capita. At the end of the fourth quarter the weighted average return of the investment portfolio calculated by Capita at 1.00% exceeded the average of other London boroughs (0.77%). Similar results were achieved at the end of each of the previous three quarters in the year. The overall average return for the whole year was 0.97%.

3. TREASURY POSITION AS AT 31 MARCH 2015

18. The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2014/15 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 2: Outstanding Borrowings and Investments

	31 March 2015	**Average Rate at 31 March 2015**	**Average Life**	31 March 2014	Average Rate at 31 March 2014	Average Life
	£m	**%**	**Years**	£m	%	Years
Fixed Rate Borrowing						
Public Works Loans Board (PWLB)	218.5	4.09	36.2	218.5	4.09	37.2
Market	115.8	4.53	37.0	121.8	4.58	36.1
Total Debt	**334.3**	**4.24**	**36.5**	**340.3**	**4.26**	**36.8**
Investments:						
In-House	119.1	1.00	214 days	130.8	1.11	174 days
Total Investments	**119.1**			**130.8**		

The above analysis assumes loans structured as LOBOs (see paragraph 24 below for definition and further details) mature at the end of the contractual period. If the first date at which the lender can reset interest rates was used as the maturity date, the average life for market loans would be 1.3 years and for the whole debt portfolio 24.1 years.

4. STRATEGY FOR 2014 – 15

19. In the Treasury Management Strategy Statement agreed by Council on 27 February 2014 it was pointed out that with capital expenditure being constrained and a large proportion being grant funded the need for additional borrowing had become less likely. The only foreseen circumstances in which new long term borrowing might be required would be either if part of the LOBO portfolio had to be refinanced or if funds became available for substantial affordable housing development. Even then the preference would be to reduce investment balances unless the substantial gap between investment and borrowing rates had narrowed.

20. None of the circumstances necessitating additional borrowing arose and none was made.

21 Investments continued to be dominated by low counterparty risk considerations resulting in low returns compared to borrowing rates.

22. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

5. BORROWING OUTTURN

23. There was no additional borrowing during the year and the only repayment a sum of £6m repaid to Landesbank Hessen-Thuringen on 28th April 2014. The table below sets out the borrowing maturity profile.

Table 3: Borrowing Maturity Profile (Assuming Full Term Maturity for LOBOS)

	31st March 2015		31st March 2014	
	£m	**%**	£m	%
Under 12 Months	0.0	0.0	6.0	1.7
12 Months and under 24 Months	0.0	0.0	0.0	0.0
24 Months and within 5 years	32.0	9.6	20.0	5.9
5 years and within 10 years	5.0	1.5	17.0	5.0
10 years and within 20 years	35.0	10.5	35.0	10.3
20 years and within 30 years	20.0	6.0	20.0	5.9
30 years and within 40 years	80.0	23.9	60.0	17.7
40 years and within 50 years	128.5	38.4	148.5	43.6
50 years and above	33.8	10.1	33.8	9.9
Total	**334.3**	**100.0**	340.3	100.0

24. In aggregate there are £83.8m of Lender Option Borrower Option (LOBO) structured loans shown in the table above as having maturities of between 35 and 63 years. The lenders are permitted to reset interest rates five years after the loan is drawn and either semi-annually or annually thereafter. Should interest rates on these loans increase, the Council has the option to repay at no cost. The table below restates the maturity profile by including LOBO loans at their first interest reset date.

Table 4: Borrowing Maturity Profile (Assuming Earliest Repayment for LOBOS)

	31st March 2015		31st March 2014	
	£m	**%**	£m	%
Under 12 Months	83.8	25.1	69.8	20.5
12 Months and under 24 Months	0.0	0.0	20.0	5.9
24 Months and within 5 years	32.0	9.6	20.0	5.9
5 years and within 10 years	5.0	1.5	17.0	5.0
10 years and within 20 years	35.0	10.4	35.0	10.3
20 years and within 30 years	20.0	6.0	20.0	5.9
30 years and within 40 years	60.0	18.0	40.0	11.7
40 years and within 50 years	98.5	29.4	118.5	34.8
Total	**334.3**	**100.0**	340.3	100.0

25. The approach to funding capital expenditure, as discussed in past strategy statements, is to use internal funds wherever possible in recognition of the unfavourable gap between investment returns and borrowing costs. Consideration continues to be given as to the cost and benefits of the premature repayment of debt and the premium which would be incurred. However, in view of the cost and the estimated future requirements of the capital programme, which could necessitate further borrowings, it was not felt to be appropriate to make any premature repayments during 2014/15.

6. INVESTMENT OUTTURN

26. Bank rate remained at its historic low of 0.5% throughout the year and it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Average LIBOR and LIBID average rates for the year at 0.55% and 0.43% respectively remain low making investing over short terms unattractive. Despite these unattractive rates the investment portfolio achieved an average return of 0.97% in the year through concentrating investments with the two part UK Government owned banks that offered superior returns.

27. The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The treasury

strategy permits investments for a range of periods from overnight to three years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Further details of the credit quality of counterparties are given in Appendix 4.

28. The investment portfolio is mostly (85%) invested with two banks, Lloyds / HBOS (38%) and RBS (47%). The counterparty policy permits 50% to be invested in each of these banks.

29. Advantage has been taken of the available limits with Lloyds and RBS. Not only did they offer higher interest rates than the other UK banks but the longer permitted maturities also enhanced returns.

30. As at 31 March 2015 the investment portfolio is invested over a spread of maturities up to three years. At the year end £28m matures in more than 12 months taking advantage of the longer term rates available. This is below the maximum (£40.5m) permitted by the strategy. These deposits yield between 1.1% and 1.6%, somewhat higher than one year deposits which yield around 1% and very short term of under 0.5%. A listing of new investments of 3 months or more in the year is included in Appendix 2.

31. The table below sets out the investment balances as at 31 March 2015.

Table 5: Investment Balances

	31st March 2015		31st March 2014	
	£m	**%**	£m	%
Specified Investments				
Banks & Building Societies	5.3	4.5	0.0	0.0
Money Market Funds	1.6	1.3	1.6	1.2
Local Authority	5.0	4.2	0.0	0.0
Non –Specified Investments				
Banks & Building Soc.	101.1	84.9	109.2	83.5
Enhanced Money Market Funds	6.1	5.1	20.0	15.3
Total	**119.1**	**100.0**	130.8	100.0

Included in the above balances are Pension Fund balances of £1.6 m. The Pension Fund cash balances are held in separate banks accounts in the name of the Fund. In aggregate 12% of interest earned is allocated to internal funds.

32. Notwithstanding the relative success of the Council's investment performance and the ability to operate within the agreed counterparty policy, officers remain concerned that absolute returns are historically poor and that, at times, some of the constraints on the investments cause logistical problems. Additionally advice recently received from Capita requires the policy to be reviewed. Cabinet are therefore asked to consider the following:

- Over the last few months, Fitch, the only rating agency which provides a sovereign (national government) support rating for banks globally, has reviewed this rating. They now believe that legislative, regulatory and policy initiatives have substantially reduced the likelihood of sovereign support for senior creditors of UK, EU and Swiss banks. On 20 May Capita issued their credit rating update in which they advised that several banks in each of Belgium, Denmark, Finland, France, Germany, Netherlands, Switzerland and UK should have their support rating downgraded from 1 (the highest level) to 5 (the lowest level). The UK banks affected are Lloyds/HBOS, Barclays, Standard Chartered, Nationwide and RBS. Svenska Handelsbanken, the Swedish bank in which the Council invests was downgraded from 1 to 2. However, Capita have also advised that this "…….is not indicative of deteriorating credit quality in the institution concerned. Instead it is reflective of underlying methodology changes by the agencies in light of regulatory changes." It is therefore recommended that for Non-Specified Investments the "Support" criterion be removed.
- Capita have recently advised that they have reviewed their categorisation of Lloyds Banking Group as "part-nationalised." They argue that with the recent sell off of a further 1% of the Government's holding in the Bank and the apparent intention of the Government to "materially reduce its holding in Lloyds over the current financial year" it should be subject to the same review methodology as all banks other than RBS. They specifically suggest that investments should not exceed six months and, whilst this is likely to impact on the Council's investment performance, it is recommended that the Cabinet agree to amend the Counterparty Policy accordingly.

- The Council's banking current accounts are maintained with RBS mainly through a Special Interest Bearing Account (SIBA). However, because of the relatively favourable medium term rates offered by RBS the Council also maintains various fixed term investments of up to three years with them. Fixed term investments are currently £43m. Whilst it is normally straightforward to maintain investments with RBS at the 50% level currently agreed, with the volatile nature of the Council's cashflow and the desirability of maintaining some fixed term investments with RBS, keeping within this limit is occasionally challenging. It is therefore recommended that the limit be increased to 60%
- Attached as Appendix 5 is a report produced by Capita discussing corporate bonds as a potential investment category for the Council to consider; at this stage it is recommended only that corporate bonds be included as a Non-Specified investment category and that officers be given the opportunity, along with Capita, to review specific opportunities but to make no investments without specific authority
- Additionally, officers would welcome the opportunity to investigate other non-standard and gilts investments but to make no investments without specific authority.

33. Cabinet are therefore asked to recommend to Council that it agrees the revised Counterparty Policy as stated in Appendix 6.

7. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

34. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. Under this framework, individual authorities are responsible for deciding the level of their affordable borrowing for the Council's capital investment plans that is demonstrated to be affordable, prudent and sustainable.

35. The Act and the supporting regulations require the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The indicators for 2014/15 were approved by the Council on 27 February 2014. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in Appendix 1.

8. MINIMUM REVENUE PROVISION (MRP)

36. Under the statutory regulations a Minimum Revenue Provision is made each year to repay the outstanding debt on assets. This is calculated by spreading the capital expenditure over the useful life of the asset as detailed in the strategy.

9. ECONOMIC BACKGROUND

37. The Council has engaged Capita Asset Services, Treasury Solutions as its external treasury management adviser. Appendix 3 comprises a commentary on the UK and Global economies as prepared during April 2015.

10. IMPLICATIONS OF THE RECOMMENDATIONS

38. The recommendations are asking the Cabinet mainly to note the position on treasury management activities. If Cabinet recommends to Council to amend the counterparty list and Council agrees to do so, this is likely to have both positive and negative implications for the Council's resources and costs.

39. The recommendations do not affect the Council's staffing / workforce and have no equalities or community safety impact.

11. LEGAL IMPLICATIONS

40. The report has been reviewed by the Legal Department and comments received are incorporated into the report.

12. FINANCIAL IMPLICATIONS

41. In addition to supporting the Council's revenue and capital programmes the Treasury Management budget of £20m discussed in paragraph 16 is an important part of the General Fund budget. Any savings achieved, or overspends incurred, have a direct impact on the achievements of the budgetary policy.

13. PERFORMANCE ISSUES

42. 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.

43. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in Appendix 1. In most cases performance has been in accordance with the indicators and, where it has not, explanations are provided.

14. ENVIRONMENTAL IMPACT

44. There are no direct environmental impacts.

15. RISK MANAGEMENT IMPLICATIONS

45. The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are included in the Directorate risk register and are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

16. EQUALITIES IMPLICATIONS

46. There is no direct equalities impact.

17. CORPORATE PRIORITIES

47. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 1 July 2015	ξ	Director of Finance (Interim)
Name: Caroline Eccles Date: 2 July 2015	ξ	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**
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:
Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15 - Cabinet on 13 February 2014.
http://www.harrow.gov.uk/www2/documents/s112592/TMS.pdf

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call –in does not apply to Recommendation for noting and decisions reserved to Council]*

APPENDIX 1

PRUDENTIAL INDICATORS 2014/15 OUTTURN

Capital Expenditure and Funding

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators and the table below provides the relevant data.

Table 1: Actual Capital Expenditure

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	£'000	£'000	£'000
Expenditure			
Non - HRA	29,069	69,571	57,927
HRA	6,261	9,527	4,443
TOTAL	**35,330**	**79,098**	**62,370**
Funding:			
Grants	9,404	46,675	27,779
Capital Receipts	4,434	13,483	179
Revenue Financing	6,748	7,428	5,534
Section 106 / Section 20 contributions	76	366	553
TOTAL	**20,662**	**67,952**	**34,045**
Net financing need for the year	**14,668**	**11,146**	**28,325**

The funding excludes the Minimum Revenue Provision (depreciation on General Fund assets) which offsets the need for external borrowing. Further detail and explanations are contained within the Revenue and Capital Outturn report.

The General Fund capital expenditure of £57.9m is lower than the approved programme resulting in a variance of £11.7m. The slippage will be carried forward into 2015/16.

From an affordability perspective, which is the treasury consideration, the reduction in expenditure has impacted favourably on interest income. The majority of Housing Revenue Account's (HRA's) capital expenditure of £4.4 million is funded from revenue sources.

Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2014/15 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2014/15 on 27 February 2014.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

Table 2: Capital Financing Requirement

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	£'000	£'000	£'000
Capital Financing Requirement as at 31 March			
Non – HRA	244,215	264,985	256,390
HRA	149,538	149,524	149,526
TOTAL	**393,753**	**414,509**	**405,916**
Annual change in CFR			
Non – HRA	26	-3,922	12,175
HRA	-36	-25	-12
TOTAL	**-10**	**-3,947**	**12,163**

Reasons for annual change

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	£'000	£'000	£'000
Net financing need	14,114	11,146	27,825
Lease liability	554	500	500
Less MRP for PFI and Leases	-2,040	-2,034	-2,050
Less MRP	-12,638	-13,559	-14,112
TOTAL	**-10**	**-3,947**	**12,163**

The CFR value is greater than the outstanding borrowing (including finance leases) of £354m, indicating the level of cash generated by revenue balances.

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2014/15) plus the estimates of any additional capital financing requirement for the current (2015/16) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3: Borrowing

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	£'000	£'000	£'000
Capital Financing Requirement	393,753	414,509	405,916
Gross borrowing	362,134	354,847	354,847
Under borrowing	**31,619**	**59,662**	**51,069**

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Boundaries

	2013/14	2014/15	2014/15
	£m	£m	£m
Authorised Limit for external debt			
Borrowing and finance leases	394	414	406
Operational Boundary for external debt			
Borrowing	340	345	334
Other long term liabilities	22	22	20
Total	362	367	354
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	340	345	334
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	0	0	0
Upper limit for principal sums invested over 364 days	25	40	28

The approved operational boundary for debt is based on actual debt at the start of the year plus the actual borrowing requirement for the net projected capital expenditure in the year. The authorised limit is based on CFR balances. Total borrowing has been within both limits during the year.

Actual financing costs as a proportion of net revenue stream - 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.

Table 5 - Ratio of Financing Costs to Net Revenue Stream

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	%	%	%
Ratio of financing costs to net revenue stream			
Non - HRA	13	14	14
HRA	45	43	48

This indicator identifies the trend in the cost of capital (depreciation, impairments, borrowing and other long term obligation costs net of investment income) against the net revenue stream. The increase in HRA ratio is due to impairments on garages.

Table 6 - Incremental Impact of Capital Investment Decisions

	2013/14	2014/15	2014/15
	Actual	Approved	Actual
	£	£	£
Incremental impact of capital investment decisions			
Increase in Council Tax (Band D) per annum	21.71	11.43	33.32
Increase in average housing rent per week	2.65	-0.14	0.11

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

The capital expenditure and commitments to be funded from Council Tax increased significantly (£17m) as there were less capital receipts than anticipated to fund the programme.

APPENDIX 2

NEW INVESTMENTS UNDERTAKEN FOR PERIODS OF OVER 3 MONTHS

Counterparty	Date invested	Period	Principal (£m)	Interest rate (%)
Royal Bank of Scotland	10-Apr-14	2 years	5	1.08
Bank of Scotland	16-May-14	1 year	5	0.95
Bank of Scotland	16-May-14	1 year	3	0.95
Lloyds TSB	04-Jul-14	1 year	5	0.95
Royal Bank of Scotland	15-Jul-14	3 years	5	1.60
Lloyds TSB	04-Aug-14	1 year	10	0.95
Royal Bank of Scotland	22-Sep-14	2 years	5	1.50
Lloyds TSB	16-Oct-14	1 year	10	1.00
Royal Bank of Scotland	17-Oct-14	1 year	8	1.50
Lancashire County Council	31-Oct-14	9 Months	5	0.74

APPENDIX 3

THE ECONOMY AND INTEREST RATES

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

APPENDIX 4

COUNTERPARTY POLICY

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

Specified Investments
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.

Table 1: Specified Investments

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 UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments
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.

Table 2: Non - Specified Investments

	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 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 £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.

APPENDIX 5

CORPORATE BONDS – REPORT FROM CAPITA

1. Corporate Bonds

1.1. Description

As from 1st April 2012, the CLG changed the rules on capital expenditure for English local
authorities (this restriction was not implemented in Wales or Scotland) This, makes investment into corporate bonds easier, as they are no longer classified as capital spending.

In essence, companies issue bonds in order to raise long-term capital or funding, rather than issuing equity. These are non-standardised compared to other investment vehicles, each having an individual legal document known as a 'bond indenture'. The document specifies the rights of the holder and the obligations that must be met by the issuer, as well as the characteristics of that particular bond. Investing in a corporate bond usually offers a fixed stream of income (except floating rate notes), known as a coupon, payable twice a year, for a fixed, predetermined period of time in exchange for an initial investment of capital.

Some bond investors prefer not to hold on to them until maturity, as they can be looking for
capital appreciation, rather than just a regular income stream. However, for local authorities, purely looking for a fixed stream of income, the ‘buy and hold strategy’ is perhaps far more appealing. Though an option for local authorities in need of liquidating positions, bond trading before maturity can introduce further potential risks, especially during volatile market conditions.

Corporate bonds are usually grouped by credit rating as the following;
• **Investment-grade bonds –** “BBB” or higher
• **High yield/Speculative/Junk bonds –** “BB” and below

Characteristics of some corporate bonds can include sinking fund provisions that help the issuer pay back the face value of the bond in instalments, protective covenants to protect income streams paid out and call/put provisions meaning potential benefits and drawbacks for both the issuer and investor during volatile market conditions.

There are many types of corporate bonds including; zero-coupon bonds, debentures (which are usually secured by a floating charge), mortgage bonds which have security of specific collateral and unsecured bonds which are based solely on the credit quality of the issuer.

1.2. Benefits and Drawbacks of Investing in Corporate Bonds

The benefit for local authorities investing in corporate bonds can be the securing of a much
higher rate of return for a given period, compared to Gilts and other assets. This is usually
because of their higher perceived risk. They also potentially allow greater liquidity than fixed term deposits as they can be sold before maturity, though this does introduce the potential risk of capital loss. However, the latter would not usually apply, as the ‘buy and hold strategy’ would be the primary focus for local authorities.
Market risk is relatively higher compared to Gilts as corporate bonds typically have a lower
credit rating and perceived security, which can result in greater volatility of price / yield
movements. Furthermore, the lower the rating, the greater the potential level of volatility, which again highlights the benefits of only selecting high quality bonds under a ‘buy and hold’ strategy.

A brief summary of the risks which should be considered by local authorities, both before
investing and during investments in corporate bonds, are shown below:

- **Interest rate risk –** what impact would a changing interest rate outlook have on the performance of a bond?
- **Inflation risk -** “real” return can be eroded if inflation is expected to or will rise during the term of the bond, and thus coupon payments become less valuable.(Except Indexlinked Gilts)
- **Re-investment risk (only if traded before maturity) -** the effect of changing interest rates on the return of re-investing coupon payments before maturity.
- **Credit risk -** credit quality/rating deterioration can lead to the value of the bond decreasing.
- **Default risk -** possibility that total principal may not be returned at maturity, or partially returned, resulting in capital loss.
- **Call/Put provision risk -** the bond can be called by the issuer before maturity in a falling interest rate market, as cheaper funding can be sourced elsewhere and therefore re-investment risk is evident in a low interest rate period and vice versa.

Local authorities’ preferred type of corporate bond would likely be a plain vanilla (repayment), investment grade bond, paying fixed coupons and denominated in sterling.

Ideally, the maturity horizon currently suggested for these types of bonds, would be to invest in the short-end, within 1-2 years, as rates are expected to rise in the first quarter of 2016. Moreover, with most local authority counterparty lists recently squeezed in terms of numbers of financial institutions, diversifying into the non-financial sector could also be beneficial.

An essential criterion to be aware of when selecting bonds is the collateral classification for
each bond. Even though it is recommended that local authorities invest in investment grade bonds (BBB or higher), which meet the Capita Asset Services suggested-duration, that itself does not mean they are guaranteed risk free assets. If a corporate defaults on its bond payments, investors who take the least amount of risk are paid first. For this reason, creditors and bondholders who lend money to a company will be compensated before its stockholders, who own the company. Furthermore, the seniority of a bond is vital for local authorities when selecting these investments. Seniority refers to the order of which bonds will be repaid. The ranking order is:
1. Senior secured
2. Senior unsecured
3. Subordinated

The credit rating agencies play a crucial role in relation to this area of bond type, as they use this information and other fundamentals to evaluate their final ratings for each bond.

Custodian facilities will be required in order for local authorities to purchase corporate bonds.

The relations with brokers and market makers will be useful in finding bonds that are both suitable and available in the market. With local authorities looking to invest in the short-end of the yield curve, searching for bonds which are actively traded in the market is important, as in most instances Money Market Funds (both traditional and particularly wider-range versions), Pension Funds and other fund managers, are heavy buyers of short-term debt, whether issued by financials or non-financial institutions.

When investing in corporate bonds, the strategy of ‘buy and hold till maturity’ can only be valid if the Council’s approved duration for the institution covers the maturity periods of these bonds. It is for this reason that the list of available corporate bonds can shrink drastically, when taking into account the suggested duration.

2. **Covered Bonds**

2.1. Description

Covered bonds are a type of secured bond that is usually backed by mortgages or public sector loans. In the UK, the assets backing the bond are transferred to a separate legal entity (a ‘Special Purpose Vehicle’ or SPV) and form collateral for the bonds.

The asset pool of a covered bond is dynamic. So, for example, mortgages which are refinanced or which fall into arrears can be replaced with new mortgages of better credit quality and characteristics. This is for as long as the issuer of the bond remains solvent.
An important feature of covered bonds is that investors have “dual recourse”, both to the issuer and to the underlying pool of assets.

- Under normal circumstances, covered bonds are an obligation of the issuer, so investors can expect that the issuer will make interest and principal payments on the agreed dates;
- In the event that either the issuer of the covered bond defaults on its obligations to covered bond holders or becomes insolvent, the asset pool becomes static and the SPV takes responsibility for administering the asset pool to continue to make payments to bondholders on the agreed dates; and
- If there are insufficient assets in the asset pool to meet obligations to covered bond holders, they become an unsecured creditors of the failed issuer for the residual amount.

2.2. Security

It is correct to state that the assets within the “cover pool” will be excluded from any resolution programme under UK regulations. However, if these fall short of obligations, then any residual investor claim will rank pari-passu with unsecured depositors. As such, it is more correct to state that the assets, rather than the investors, in these instruments are “un-bail-in-able” (i.e. In the event of issuer failure these assets are outside the pool used to pay creditors).

If clients wished to include the use of these instruments, they would likely need to make a provision for them within their Investment Strategy. These investments are rated, with the ratings being linked to the underlying position of the issuing entity, as well as the dynamics of the bond itself. Due to this rating position, we would suggest that they are included as separate instruments, rather than just a subset of investments within a particular counterparty (as with deposits, certificate of deposits etc). Typically, these instruments are rated “AAA” by rating agencies. Given the tenets of Security, Liquidity and then Yield, clients may deem it appropriate to specify “AAA” as the minimum rating requirement for such instruments. However, it has to be appreciated that although the vast majority of sterling-denominated bonds are rated “AAA”, it is not universal and, importantly, ratings can change through the life of a bond.

For example, when first issued, the covered bond programme of Co-Operative Bank was rated “AAA” by both Moody’s and Fitch. However, when the entity itself suffered a series of downgrades related to capital shortfall issues in 2012 / 2013, the ratings of its covered bond programme were also hit. By November 2013, after a downgrade process which first began in October 2012, the ratings had fallen to Baa3 (Moody’s) and BBB+ (Fitch). In addition to potentially falling outside of any client criteria, the impact on the price of the bond at the time was also material. The price of the bond dropped by around 12% in value in a very short space of time in mid-2013. As such, if a client was required to sell its position, due to the bond rating falling outside its criteria, it may have had to crystallise a material capital loss. Although this may seem an extreme example, it is appropriate to consider what can happen to these types of investment instrument in a situation where an entity approaches a resolution position.

Importantly, the rating of a covered bond cannot be more than 6 notches higher than the related institution. As such, if an institution’s rating falls below the A rating, its covered bond will be rated lower than AAA.

2.3. Liquidity

In terms of liquidity, the UK sterling-denominated covered bond market is significantly smaller than many other European markets, where covered bond issuance is a key funding operation for financial institutions. As such, these bonds can be difficult to acquire in the first instance and any acquisition may not be at an attractive price. Furthermore, these types of issuance are typically long-dated and thus unsuitable to many investment portfolios. Although bonds can be bought in the secondary market with only a short life remaining, these opportunities can be relatively scarce and will often be only available at relatively low yields. It is also important to note that many sterling-denominated covered bonds have the option to allow final maturity to be extended by one year. As such, quoted maturity dates need to be checked to see whether these are “soft” (ie extendible) or “hard” (not able to be extended) and what can trigger the extension.

If investments are being laddered to meet cash flow expectations, then an unexpected maturity extension may need to be factored in to investment considerations.

2.4. Yield

If a bond does become available in the secondary market with only a short-life to maturity, it is typical for much of the yield enhancement that had originally attracted longer-term investors has been naturally whittled away. For example, a Leeds Building Society covered bond with a maturity of December 2018, originally issued with a coupon of 4.25% in June 2011, is now yielding only around 1.6%. It is a similar situation for a floating rate bond. For instance, a Yorkshire Building Society covered bond (maturity of March 2016) was originally issued at 3m LIBOR + 1.75% in March 2012. The discounted margin (ie margin from now to maturity) is now below 20bps. This is not to say that the options available are always unattractive, but that careful consideration needs to be given to more than just the enhanced security of a covered bond. For example, can an investment with another local authority actually generate a similar or enhanced return for a similar maturity period?

2.5. Summary

As with any investment asset class it is critical that the investor fully appreciates its different facets to allow a conscious investment decision. Although these instruments are further up the creditor hierarchy if an institution is placed into resolution under new guidance, this has always been the case. New regulations have not changed this fact. As we have stressed in other publications on the subject, the new regulatory environment in the UK is based on a “no creditor worse off” fundamental.

Furthermore, the new environment is not solely focussed on what happens in resolution but, more importantly, is aimed at making individual institutions and the financial market as a whole, much more robust and thus reduce the incidence of failure in the future. It is important that a varied number of investment instruments are considered when compiling an investment strategy. However, make sure that each type is considered from each of the Security, Liquidity and Yield perspectives. By undertaking this, clients will fully understand and appreciate each investment option and, therefore, determine whether they are appropriate for use.

APPENDIX 6

PROPOSED REVISED COUNTERPARTY LIST

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

Specified Investments
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.

Table 1: Specified Investments

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 UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments
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.

Table 2: Non - Specified Investments

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies (excluding Lloyds / HBOS)	A Long Term F1 Short-term UK or AAA Sovereign	In-house	50%	3 months
Lloyds / HBOS	A Long Term F1 Short-term	In-house	50%	6 months
Callable Deposits	A Long Term F1 Short term	In-house	20%	3 months
UK nationalised Banks [RBS]	F2 Short-term	In-house	60%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Corporate bonds pooled funds, other non-standard investments and gilts			£10m in total	Dependent on specific agreement
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.

APPENDIX 7

LEGISLATION AND REGULATIONS 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 8

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.

<u>Treasury and Pension Fund Manager</u>

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'.

<u>Treasury Team</u>

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.