Harrow COUNCIL LONDON

REPORT FOR:	**CABINET**
Date of Meeting:	16 June 2016
Subject:	Treasury Management Outturn 2015/16
Key Decision:	No
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No
Decision subject to Call-in:	No, as the recommendation is for noting only
Wards affected:	All
Enclosures:	Appendix 1 – Legislation and Regulations Impacting on Treasury Management Appendix 2 – Treasury Management Delegations and Responsibilities Appendix 3 – Counterparty Policy Appendix 4 – New Investments Undertaken for Periods of Over 3 Months Appendix 5 - Prudential Indicators 2015/16 Outturn

Section 1 – Summary and Recommendations

This report sets out the summary of treasury management activities for 2015/16.

Recommendation:

Cabinet is asked to:

(a) Note the outturn position for treasury management activities for 2015/16.

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

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.

3. 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. Surplus monies are invested with low risk counterparties or instruments commensurate with the Council's low risk

appetite, providing adequate liquidity initially before considering investment return.

4. The second main function of the Treasury Management service is the funding of the Council’s capital programme. This programme provides 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.

5. The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ the Prudential Code (The Prudential Code for Capital Finance in Local Authorities [CIPFA 2011 Edition]) and Treasury Management Code (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes [CIPFA 2011 Edition]), in setting Treasury and Prudential Indicators for the next three years and in ensuring that the Council’s capital investment programme is affordable, prudent and sustainable.

6. The Act, the Codes and Department for Communities and Local Government Investment Guidance (2010) require 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. A summary of the relevant legislation, regulations and guidance is included as Appendix 1.

7. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the projected income of the Council for the foreseeable future.

8. 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.

9. 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

10. 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.

Treasury Management Strategy Statement report - The first, and most important report is presented to the Council in February and covers:

- the capital programme (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).

Mid-year Review report – This is presented to Cabinet in the autumn and updates Members on the progress of the capital position, reporting on Prudential Indicators and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

Treasury Management Outturn 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 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 monitors the treasury management activity and market conditions.

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

1.3 Matters covered in report

13. The main matters covered in the report are:

- Treasury management outturn (Paragraph 2)
- Treasury position as at 31 March 2016 (Paragraph 3)
- Strategy for 2015/16 (Paragraph 4)
- Borrowing outturn (Paragraph 5)
- Investment outturn (Paragraph 6)

- Compliance with treasury limits and Prudential Indicators (Paragraph 7)
- Minimum Revenue Provision (Paragraph 8)
- Economic background (Paragraph 9)

1.4 Options considered

14. For the reasons discussed above no other options were considered.

2. TREASURY MANAGEMENT OUTTURN

15. There was a favourable variance of £0.1m on the revised capital financing budget of £19.1m as detailed below:

Table 1: Outturn Summary

	Original Budget	Revised Budget	Outturn	Variation	
	£000	£000	£000	£000	%
Cost of Borrowing	7,834	7,834	7,865	31	0.40%
Investment Income	-1,588	-1,588	-1,757	-169	10.64%
Minimum Revenue Provision	12,876	12,876	12,876	0	0.00%
Total	**19,122**	**19,122**	**18,984**	**-138**	**-0.72%**

The favourable variance on investment income is mainly due to balances throughout the year being higher than estimated.

16. 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 0.87% marginally exceeded the average of other London boroughs (0.83%). 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 of 0.85% placed the Council in the top half of all local authorities.

3. TREASURY POSITION AS AT 31 MARCH 2016

17. 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 2015/16 the Council‘s treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 2: Outstanding Borrowings and Investments

	31 March 2016	Average Rate at 31 March 2016	Average Life	31 March 2015	Average Rate at 31 March 2015	Average Life
	£m	%	Years	£m	%	Years
Fixed Rate Borrowing						
Public Works Loans Board (PWLB)	218.5	4.09	35.2	218.5	4.09	36.2
Market	115.8	4.53	36.0	115.8	4.53	37.0
Total Debt	**334.3**	**4.24**	**35.5**	**334.3**	**4.24**	**36.5**
Investments						
In-House	76.2	0.87	74 days	119.1	1.00	214 days
Total Investments	**76.2**			**119.1**		

The above analysis assumes loans structured as LOBOs (see paragraph 23 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 1.0 years and for the whole debt portfolio 23.3 years.

4. STRATEGY FOR 2015 – 16

18. In the Treasury Management Strategy Statement agreed by Council on 19 February 2015 it was stated that for the next three years the capital programme would 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.

19. Neither of the circumstances necessitating additional borrowing arose and none was made.

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

21. 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

22. There was no additional borrowing nor any redemptions during the year. The table below sets out the borrowing maturity profile.

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

	31st March 2016		31st March 2015	
	£m	%	£m	%
Under 12 Months	0.0	0.0	0.0	0.0
12 Months and under 24 Months	10.0	3.0	0.0	0.0
24 Months and within 5 years	22.0	6.6	32.0	9.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	45.0	13.5	35.0	10.5
20 years and within 30 years	10.0	3.0	20.0	6.0
30 years and within 40 years	80.0	23.9	80.0	23.9
40 years and within 50 years	128.5	38.4	128.5	38.4
50 years and above	33.8	10.1	33.8	10.1
Total	**334.3**	**100.0**	**334.3**	**100.0**

23. In aggregate there are £83.8m of Lender Option Borrower Option (LOBO) structured loans shown in the table above as having maturities of between 34 and 62 years. In exchange for an interest rate that was below that offered on long term debt by the PWLB 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 2016		31st March 2015	
	£m	%	£m	%
Under 12 Months	83.8	25.1	83.8	25.1
12 Months and under 24 Months	10.0	3.0	0.0	0.0
24 Months and within 5 years	22.0	6.6	32.0	9.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	45.0	13.4	35.0	10.4
20 years and within 30 years	10.0	3.0	20.0	6.0

30 years and within 40 years	60.0	18.0	60.0	18.0
40 years and within 50 years	98.5	29.4	98.5	29.4
50 years and above	0.0	0.0	0.0	0.0
Total	**334.3**	**100.0**	**334.3**	**100.0**

24. 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 2015/16.

6. INVESTMENT OUTTURN

25. Bank rate remained at its historic low of 0.5% throughout the year and it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2015 but then moved back radically to quarter 2 2018 by the end of the year. Average LIBOR and LIBID average rates for the year at 0.58% and 0.46% respectively remain low making investing over short terms unattractive. Despite these unattractive rates the investment portfolio achieved an average return of 0.85% in the year through concentrating investments with the two part UK Government owned banks that offered superior returns.

26. 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 3.

27. The investment portfolio is mostly (72%) invested with two banks, Lloyds / HBOS (20%) and RBS (52%). The counterparty policy permits up to 50% to be invested with Lloyds / HBOS and 60% with RBS.

28. 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.

29. As at 31 March 2016 the investment portfolio is invested over a spread of maturities up to two years. At the year end only £5m matures in more than 12 months due to the decreasing available cash balances and the future demands of the capital programme. A listing of new investments of 3 months or more in the year is included in Appendix 4.

30. The table below sets out the investment balances as at 31 March 2016.

Table 5: Investment Balances

	31st March 2016		31st March 2015	
	£m	%	£m	%
Specified Investments				
Banks & Building Societies	19.7	25.9	5.3	4.5
Money Market Funds	1.6	2.1	1.6	1.3
Local Authority	0.0	0.0	5.0	4.2
Non –Specified Investments				
Banks & Building Societies	54.8	71.8	101.1	84.9
Enhanced Money Market Funds	0.1	0.2	6.1	5.1
Total	**76.2**	**100.0**	**119.1**	**100.0**

Investment balances have reduced substantially due to the progress made on agreed initiatives and priorities.

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 7% of interest earned is allocated to internal funds.

7. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

31. 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.

32. 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 2015/16 were approved by the Council on 19 February 2015. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in Appendix 5.

8. MINIMUM REVENUE PROVISION (MRP)

33. 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

34. The Council has engaged Capita Asset Services, Treasury Solutions as its external treasury management adviser. Below is a short commentary provided by Capita in April 2016 summarising their views on developments in the world economy and interest rates during 2015-16.

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

10. IMPLICATIONS OF THE RECOMMENDATIONS

35. The recommendations are asking the Cabinet mainly to note the position on treasury management activities. They do not affect the Council's staffing / workforce and have no equalities or community safety impact.

11. LEGAL IMPLICATIONS

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

12. FINANCIAL IMPLICATIONS

37. In addition to supporting the Council's revenue and capital programmes the Treasury Management budget of £19.1m discussed in paragraph 15 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

38. 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.

39. 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

40. There are no direct environmental impacts.

15. RISK MANAGEMENT IMPLICATIONS

41. 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

42. There is no direct equalities impact.

17. CORPORATE PRIORITIES

43. 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: 3 June 2016	√	Director of Finance
Name: Caroline Eccles Date: 3 June 2016	√	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 84241450 / Email: ian.talbot@harrow.gov.uk

Background Papers: None.

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in does not apply as the recommendations is for noting only]*

APPENDIX 1

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 or Cabinet 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.

APPENDIX 3

As agreed by Cabinet on 18 February 2016 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.

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.

Non - Specified Investments

	Minimum Credit Criteria	Use	Max total investment	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
Corporate bonds pooled funds, other non-standard investments and gilts		In house	£10m in total	Dependent on specific agreement
HB Public Law Ltd		In house	£0.1m	36 months

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Investment Property Strategy		In house	£20.0m	Dependent on specific agreement
Concilium Business Services Ltd t/a Smart Lettings Ltd		In house	£0.274m	36 months
Concilium Group Startup capital		In house	£0.702m	60 months
Concilium Group 5% Long Term Investment		In house	£1.5m	Dependent on specific agreement
Cultura London re Harrow Arts Centre		In house	£1m	25 years
Housing Development Vehicle (LLP) – Initially on acquisition of 100 homes		In house	£30m	Dependent on specific agreement

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 4

NEW INVESTMENTS UNDERTAKEN FOR PERIODS OF OVER 3 MONTHS

Counterparty	Date invested	Period	Principal (£m)	Interest rate (%)
Bank of Scotland	01-Apr-15	1 year	5.0	1.00
Lloyds TSB	10-Apr-15	1 year	4.9	1.00
Lloyds TSB	15-May-15	6 months	5.0	0.70
Lloyds TSB	04-Aug-15	3 months	5.0	0.57
Lloyds TSB	04-Aug-15	6 months	5.0	0.70

APPENDIX 5

PRUDENTIAL INDICATORS 2015/16 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

	2014/15	2015/16	2015/16
	Actual	**Revised Budget**	**Actual**
	£'000	**£'000**	**£'000**
Expenditure			
Non - HRA	57,927	126,722	79,623
HRA	4,443	30,239	13,554
TOTAL	**62,370**	**156,961**	**93,177**
Funding:			
Grants	27,779	68,522	22,967
Capital Receipts	179	15,995	30,472
Revenue Financing	5,534	11,344	9,679
Section 106 / Section 20 contributions	553	2,521	1,458
TOTAL	**34,045**	**98,382**	**64,576**
Net financing need for the year	**28,325**	**58,579**	**28,601**

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.

From an affordability perspective, which is the treasury consideration, the increase in expenditure has impacted unfavourably on interest income. Almost all of the Housing Revenue Account's (HRA's) capital expenditure of £13.5m is funded from revenue sources and capital receipts.

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 2015/16 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 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 19 February 2015.

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

	2014/15	2015/16	2015/16
	Actual	Estimate	Provisional Outturn
	£'000	£'000	£'000
Capital Financing Requirement as at 31 March			
Non – HRA	252,323	296,819	266,842
HRA	149,507	151,213	149,477
TOTAL	**401,830**	**448,032**	**416,319**
Annual change in CFR			
Non – HRA	6,891	44,496	14,519
HRA	-31	1,706	-30
TOTAL	**6,860**	**46,202**	**14,489**

Reasons for annual change

	2014/15	2015/16	2015/16
	Actual	Estimate	Provisional Outturn
	£'000	£'000	£'000
Capital Expenditure	62,370	156,961	93,177
Non Borrowing sources of funding	-34,045	-98,382	-64,576
Balance Sheet Adjustments	-5,302		
Minimum Revenue Provision	-16,163	-12,377	-14,112
TOTAL	**6,860**	**46,202**	**14,489**

The CFR value is greater than the outstanding borrowing (including finance leases) of £354.8m, 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 (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) 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

	2014/15	2015/16	2015/16
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Financing Requirement	401,830	448,032	416,319
Gross borrowing	358,720	383,720	358,727
Under borrowing	**43,110**	**64,312**	**57,592**

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 2015/16 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

	2014/15	2015/16
	£m	£m
Authorised Limit for external debt		
Borrowing and finance leases	402	416
Operational Boundary for external debt		
Borrowing	340	340
Other long term liabilities	19	19
Total	359	359
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing	340	340
Upper limit for variable rate exposure		
Net principal re variable rate borrowing	0	0
Upper limit for principal sums invested over 364 days	28	41

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 Revenue Stream

	2014/15	2015/16	2015/16
	Actual	**Approved**	**Actual**
	%	**%**	**%**
Ratio of financing costs to net revenue stream			
Non - HRA	14	13	13
HRA Including depreciation	48	41	44

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 the increase in valuations and their impact on depreciation.

Table 6 - Incremental Impact of Capital Investment Decisions

	2014/15	2015/16	2015/16
	Actual	**Approved**	**Actual**
	£	**£**	**£**
Incremental impact of capital investment decisions			
Increase in Council Tax (Band D) per annum	22	45	22
Increase in average housing rent per week	0.11	-1.71	1.78

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