TREASURY MANAGEMENT POLICY STATEMENT, ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT AND ANNUAL INVESTMENT STRATEGY 2013/14

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TREASURY MANAGEMENT POLICY STATEMENT 2013/14

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1 BACKGROUND

1.1 This Council defines its Treasury Management activities as "the management of the organisation'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."

1.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

1.4 The City Council's treasury management activities are governed by various codes of practice and guidance that the Council must have regard to under Local Government Act 2003. The principle codes and guidance that the Council must have regard to are:

- Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) which sets out the key principles and practices to be followed.

- The Prudential Code for Capital Finance in Local Authorities published by CIPFA which governs borrowing by local authorities.

- The Guidance on Local Government Investments published by the Department for Communities and Local Government which governs local authorities investment activities and stipulates that investment priorities should be security (protecting the capital sum from loss) and liquidity (keeping money readily available for expenditure when needed), rather than yield.

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 12th February 2013.

i) Authorised Limit

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The Authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year

	£m
Borrowing	382
Other Long Term Credit Liabilities	87
	469

ii) Operational Boundary

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

	£m
Borrowing	360
Other Long Term Credit Liabilities	87
	447

2 BORROWING LIMITS AND THE PRUDENTIAL CODE (Continued)

iii) Other Prudential Indicators Contained in the Prudential Code

The following indicators are also included in the Prudential Code:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Capital financing requirement
- Housing Revenue Account (HRA) limit on indebtedness
- Incremental effect of capital investment decisions on council tax at band D
- Incremental effect of capital investment decisions on housing rents

These are contained in Appendix A.

The Prudential Code also requires local authorities to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. These are guides to good practice that the City Council has adopted and followed for several years.

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The Code identifies the main Treasury Management risks, some of which may not apply to the City Council, as:

- Credit risk – ie. that the local authority is not repaid, with due interest in full, on the day repayment is due.

- Liquidity risk – ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs.

- Interest rate risk – ie. that the authority fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the authority has budgeted.

- Exchange rate risk – This is the risk that the authority enters into a contract priced in a foreign currency and the exchange rate fluctuates adversely between entering the contract and settling the contract.

- Maturity (or refinancing risk) – This relates to the authority's borrowing or capital financing activities, and is the risk that the authority is unable to repay or replace its maturing funding arrangements on appropriate terms.

- Legal risk – ie. that one or other party to an agreement will be unable to honour its legal obligations.

- Procedures (or systems) risk – ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.

- Market risk – This is the risk of adverse market fluctuations in the value of the principal sums of tradable investments such as Government gilts.

3.2 The approved activities of the Treasury Management operation are as follows: -

(a) Cash flow (daily balance and longer term forecasting);

(b) Investing surplus funds in approved investments;

(c) Borrowing to finance cash deficits;

(d) Funding of capital payments through borrowing, capital receipts, grants or leasing;

(e) Management of debt (including rescheduling and ensuring an even maturity profile);

(f) Interest rate exposure management;

(g) Dealing procedures;

(h) Use of external managers for temporary investment of funds.

3.3 It is proposed that the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy **(Recommendation 4.1(a))**.

4 TREASURY MANAGEMENT STRATEGY FOR 2013/14

4.1 Objectives

It is estimated that the net interest and debt repayment costs for 2013/14 will amount to approximately £25.1m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2013/14 are:

(a) Borrowing

- To minimise the revenue costs of debt
- To manage the City Council's debt maturity profile to ensure that no single financial year exposes the authority to a substantial borrowing requirement when interest rates may be relatively high
- To match the City Council's debt maturity profile to the provision of funds to repay debt if this can be achieved without significant cost (see paragraph 4.11)
- To effect funding in any one year at the cheapest long term cost commensurate with future risk
- To forecast average future interest rates and borrow accordingly (i.e. short term and/or variable when rates are 'high', long term and fixed when rates are 'low').
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements
- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.
- To maximise the use of all capital resources including Supported Capital Expenditure, usable capital receipts, grants and contributions, etc. **(recommendation 4.1(b))**.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.1 Objectives (continued)

(b) Lending

- To ensure the security of lending (the maximisation of returns remains a secondary consideration) by investing in:
  - the United Kingdom Government and institutions or projects guaranteed by the United Kingdom Government;
  - Other local authorities in England, Scotland and Wales
  - Aaa rated money market funds;
  - British institutions including commercial companies that meet the City Council’s investment criteria
  - Foreign institutions including commercial companies that meet the City Council’s investment criteria within the jurisdiction of a AA+ government
- To maintain £10m in instant access accounts
- To make funds available to Council’s subsidiaries
- To make funds available for the regeneration of south Hampshire
- To optimise the return on surplus funds
- To manage the Council’s investment maturity profile to ensure that no single month exposes the authority to a substantial re-investment requirement when interest rates may be relatively low to the extent that this can be managed without compromising the security of lending

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.2 Risk Appetite Statement

The Council attaches a high priority to a stable and predictable revenue cost from treasury management activities in the long term. This reflects the fact that debt costs represent a relatively high proportion of the council's net revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated as follows:

To assist the achievement of the council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of long term interest cost stability. Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices. The Council will not invest in share capital or property as it puts the capital sum at risk through movements in prices.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.3 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term, debt will only be for a capital purpose, CIPFA's Prudential Code which the City Council is legally obliged to have regard to requires the City Council to ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year (2012/13) plus estimates of any additional capital financing requirement for the current (2013/14) and the next two financial years. The Council's forecast gross debt is shown in the table below. This is based on the assumption that the Council will not undertake any new borrowing in 2013/14.

	2012/13 £'000	**2013/14** £'000	**2014/15** £'000	**2015/16** £'000
Gross Debt:				
Borrowing	358,173	354,822	351,471	348,120
Finance leases	4,500	3,775	3,027	2,279
Service concession arrangements (including PFIs)	84,220	83,373	83,068	82,109
Total Gross debt	**446,893**	**441,970**	**437,566**	**432,508**
Capital Financing Requirement (CFR):				
Opening CFR	426,721	429,451	432,441	433,068
Change in CFR	2,730	2,990	627	(184)
Closing CFR	**429,451**	**432,441**	**433,068**	**432,884**

4 **TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)**

In 2011/12 the Council was required to pay the Government £88.6m under the Housing Revenue Account self financing scheme. With the expected direction of gilt yields being upwards, £84m was borrowed from the PWLB in the spring and summer of 2011 for between 20 and 50 years at rates between 4.19% and 5.01%. On 29 September the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The Council therefore took advantage of this and borrowed the £88.6m required from the PWLB at NLF rates. This has resulted in the Council's gross debt exceeding its estimated capital financing requirement by £17.4m at the end of 2012/13. This balance will be used to fund future capital investment by the Council.

4.4 Gross and Net Debt

4.4.1 The borrowing and investment projections for the Council are as follows:

	2012/13 £'000	**2013/14** £'000	**2014/15** £'000	**2015/16** £'000
Gross Debt at 31 March	446,893	441,970	437,566	432,508
Investments at 31 March	(241,927)	(224,612)	(215,491)	(205,649)
Estimated Net Debt	**204,966**	**217,358**	**222,075**	**226,859**

4.4.2 The Council has a high level of investments relative to its gross debt due to having a high level of reserves and provisions, mainly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. In addition Councils are required to set aside a minimum revenue provision (MRP) for the repayment of debt, but it is often not economic to actually repay debt because of the premiums that would be incurred if loans are repaid early which therefore gives rise to investments pending the repayment of debt.

4.4.3 The high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. There is a short term risk that the rates at which the money can be invested will be less than the rates at which the loans were taken out. The level of investments will fall as capital expenditure is incurred, commitments under the PFI schemes are met and loans are repaid.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2013/14

No treasury consultants are currently employed by the City Council to advise on the borrowing strategy. However, the City Council does employ Sector Treasury Services to provide an economic and interest rate forecasting service and maintains daily contact with the London Money Market.

4.5.2 Long Term Borrowing Interest Rates

Most City Council borrowing in the past has been through the Public Works Loans Board (PWLB). The PWLB interest rates are determined by HM Treasury and are set by reference to the rates in the secondary market for gilts; the public sector is therefore able to benefit from Government borrowing rates. However the Government introduced a mark up between gilt rates and PWLB rates in October 2010 as part of the Comprehensive Spending review. The current mark up for councils that are eligible for the certainty rate, including Portsmouth, is 0.8%. Within a highly uncertain environment, the Bank of England must decide the stance of monetary policy. The consensus is that policymakers will pursue loose policy by keeping interest rates low and possibly expanding the asset purchase programme known as quantitative easing. Sector's interest rate forecasts are conservative for the next three financial years and reflect an overall view of weak economic growth and a prolonged, but successful management of the Euro zone crisis. Sector Treasury Services estimate that 25-year PWLB rates will be 3.8% at the start of 2013/14, rising to 3.9% by the end of 2013/14 and 5.0% in the end of 2015/16. On this basis the estimated interest rate on any new long-term loans in 2013/14 will be between 3.8% and 3.9%.

4.5.3 Short Term Investment Interest Rates

The Bank of England's base rate is currently 0.5%. Sector Treasury Services do not expect the base rate to increase until the first quarter of 2015 at which point it is forecast to start rising at roughly 25 basis points per quarter, rising to 1.75% by the first quarter of 2016.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.6 Lending Requirements

Because the Council has a high level of surplus cash invested it will have a net lending requirement as follows:

	2013/14	2014/15	2015/16
	£000	£000	£000
Loans Minimum Revenue Provision (MRP) on existing Capital Financing Requirement (excluding credit arrangements)	(9,666)	(9,575)	(9,493)
Planned capital expenditure financed from borrowing	14,725	11,780	11,572
Net Cash Requirement	**5,059**	**2,205**	**2,079**
Plus maturing loan debt	3,351	3,351	3,351
Less maturing investments	(189,612)	(200,491)	(205,649)
Add top-up for liquidity allowance	10,000	10,000	10,000
Lending Requirement for Year	**(171,202)**	**(184,935)**	**(190,219)**

As part of the budget for 2013/14 it has been assumed that existing maturing debt of £3.4m in 2013/14 will not be replaced. Instead this debt will be repaid using internal funds (see paragraph 6.1(f)). It is recommended however, that the Head of Financial Services and Section 151 Officer be given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time **(Recommendation 4.1(c)).**

4.7 Volatility of Budgets

The budget for interest payments and receipts is based on both the level of cash balances available and the interest rate forecasts contained in paragraph 4.5. Any deviation of interest rates from these forecasts will give rise to budget variances.

The Council is exposed to interest rate fluctuations through the need to invest up to £206m of surplus cash per annum in the medium term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council’s investments will be £856k below budget in 2013/14. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council’s investments will exceed the budget by £856k in 2013/14.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.8 Upper limits for fixed interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures.

The City Council's maximum fixed interest rate exposure throughout each year is anticipated to be as follows:

	2012/13 **£m**	**2013/14** **£m**	**2014/15** **£m**	**2015/16** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	358	355	351	348
Minimum Projected Gross Investments – Fixed Rate	(16)	(35)	(15)	-

It is recommended that the upper limits for fixed interest rate exposures be set as follows **(Recommendation 4.1(d))**:

2012/13	£342m
2013/14	£320m
2014/15	£336m
2015/16	£348m

The recommended upper limits for fixed interest rate exposure are set to provide sufficient flexibility for the Head of Financial Services and Section 151 Officer to take out fixed rate loans to finance capital expenditure if interest rates fall or are expected to rise significantly.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.9 Upper limits for variable interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for variable interest rate exposures.

The City Council's maximum variable interest rate exposure throughout each year is anticipated to be as follows:

	2012/13 **£m**	**2013/14** **£m**	**2014/15** **£m**	**2015/16** **£m**
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(342)	(320)	(336)	(348)

The Council's variable interest rate exposure is negative because it has no variable rate loans and a high proportion of its investments are either variable rate or will need to be reinvested within a year. The Council's requirement for cash varies considerably through the year. Therefore the Council needs to invest a proportion of its surplus cash either in instant access accounts or short term investments to avoid becoming overdrawn. The Council is exposed to an interest rate risk in that its investment income will fall if interest rates fall, whilst its borrowing costs will remain the same as all its loans are fixed at rates that will not fall with investment rates. Investment rates are currently very low and the scope for further reductions is very limited. The Council could mitigate this risk through making long term investments. However, this will increase credit risk. It would also be prudent to maintain an even maturity profile so that the Council can benefit from rising interest rates in the future

It is recommended that the upper limits for variable interest rate exposures be set as follows **(Recommendation 4.1(e))**:

2012/13 (£342m) – Investments up to £342m

2013/14 (£320m) – Investments up to £320m

2014/15 (£336m) – Investments up to £336m

2015/16 (£348m) – Investments up to £348m

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.10 Limits on total principal sums invested for periods longer than 364 days

Under the Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. investments exceeding 364 days that have maturities beyond year end.

Appendix B shows the City Council's core cash which could be invested long term, ie. in excess of 364 days. Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. It is recommended that the limits on sums invested for periods longer than 364 days be set on the basis of the forecast core cash (see Appendix B) so that there is flexibility to take advantage of the yield. It is recommended that the following limits be placed on total principal sums invested for periods longer than 364 days to **(Recommendation 4.1(f))**:

31/3/2013 = £150m
31/3/2014 = £218m
31/3/2015 = £208m
31/3/2016 = £198m

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.11 Limits for the maturity structure of borrowing

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council's debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in Appendix C. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.12).

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing.

It is recommended that the upper limit should be set high enough to allow for debt to be rescheduled into earlier years and for any new borrowing to mature over a shorter period than that taken out in 2007/08, 2008/09 and 2011/12. The high upper limit for debt maturing in over 40 years time reflects existing borrowing as the upper limit cannot be set lower than the existing maturity profile and is also necessary because no provision is being made for the repayment of debt incurred by the Housing Revenue Account apart from the Self Financing payment.

It is recommended that the lower limit be set at 0%.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.11 Limits for the maturity structure of borrowing (Continued)

In order to ensure a reasonably even maturity profile (paragraph 4.1(a)), it is recommended that the council set upper and lower limits for the maturity structure of its borrowings as follows **(Recommendation 4.1(g)).**

Amount of fixed rate borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Loan Debt Maturity	**Loans Minimum Revenue Provision (MRP)**	**% Over / Under Loans MRP**	**Upper limit**	**Lower limit**
Under 12 months	4%	3%	1%	25%	0%
12 months and within 24 months	1%	3%	-2%	25%	0%
24 months and within 5 years	3%	7%	-4%	25%	0%
5 years and within 10 years	5%	11%	-6%	25%	0%
10 years and within 20 years	9%	16%	-7%	30%	0%
20 years and within 30 years	13%	11%	2%	30%	0%
30 years and within 40 years	11%	7%	4%	30%	0%
40 years and within 50 years	54%	42%	12%	70%	0%

The current maturity pattern contained in Appendix C is well within these limits.

4.12 Debt Rescheduling

4.12.1 At the present time, all the City Council's long term external debt has been borrowed at fixed interest rates ranging from 3.48% to 5.01%. 54% of the Council's debt matures in over 40 years time. Appendix C shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.12.2 In the event that it was decided to further reschedule debt, account will need to be taken of premium payments to the PWLB. These are payments to compensate the PWLB for any losses that they may incur.

4 TREASURY MANAGEMENT STRATEGY for 2013/14 (Continued)

4.12 <u>Debt Rescheduling (Continued)</u>

4.12.3 The HRA will be responsible for its proportion of the premium due for early redemption of debt, based on the percentage of debt attributable to the HRA at the start of the financial year. The premiums would be charged to the General Fund and the HRA. Regulations allow the City Council to spread the cost of the premiums over a number of years, during which the accounts would benefit from reduced external interest rates.

4.12.4 The Head of Financial Services and Section 151 Officer will continue to monitor the Council's debt and will undertake further rescheduling if it would be beneficial.

4.12.5 It is recommended that authority to reschedule debt during the year be delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council **(Recommendation 4.1(h))**.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The following list specifies the various types of borrowing instruments which are available: -

	Variable	Fixed
PWLB	Y	Y
Market Long-term	Y	Y
Market Temporary	Y	Y
Overdraft	Y	
Negotiable Bonds	Y	
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	Y
Medium Term Notes	Y	Y
Leasing	Y	Y
Bills & Local Bonds	Y	Y

5.2 The main methods of raising capital finance used by the City Council are discussed in greater detail within Section 6 of this report. Other methods are not generally used because of the perceived risk or because administrative costs are high, such as in the case of Local Bonds.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE (Continued)

5.3 Local authorities are not required to conform to the Money Laundering Regulations stipulated in the Financial Services Acts. However, these principles where practical will be applied when arranging future money market borrowing to ensure that funds are not obtained from potentially unscrupulous sources.

6 APPROVED SOURCES OF BORROWING

6.1 Further information on some of the main borrowing instruments used by the City Council is set out below: -

(a) Public Works Loans Board (PWLB)

The main source of longer term borrowing for the City Council for many years has been from the Government through the Public Works Loans Board. The PWLB offers fixed rate loans from 1 year to 50 years at varying rates with different methods of repayment.

Alternatively the PWLB offers variable rate loans for 1 to 10 years, where the interest rate varies at 1, 3 or 6 month intervals. These loans can be replaced by fixed rate loans before maturity at an opportune time to the authority.

(b) Money Market Loans – Long Term

Loans for 1 to 70 years are available through the London Money Market although, depending of the type of loan being arranged, the rates of interest offered may not match those available from the PWLB, especially for Equal Instalment of Principal loans (E.I.P. loans). Any loans to be taken are evaluated to ensure that the interest rate is the lowest the City Council could obtain.

Loans offered by the money market are often LOBO (Lenders Option, Borrowers Option) loans. This enables the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force. At the time when the interest rate becomes variable, the lender has the option to increase the rate charged every 6 months (or any other agreed review period). The borrower has the option to repay the loan with no penalties if the interest rate is increased on any of the review dates.

6 APPROVED SOURCES OF BORROWING (Continued)

(c) Bonds

Bonds may be suitable for raising sums in excess of around £150m. The interest payable on bonds may be less than that charged by the PWLB, but considerable upfront fees would be incurred. To obtain the best interest rate, the Council would need to obtain a credit rating which would need to be maintained. This would incur a further upfront fee and an annual maintenance fee.

Because such a large amount needs to be borrowed to attract investors and also to reduce the upfront fees and negate the need for an individual credit rating a pooled issuance with other local authorities may be more viable.

(d) Money Market Loans – Temporary (Loans up to 364 days)

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2013/14 of £469m set by the City Council on 12 February 2013 must not be exceeded. It is anticipated that the City Council will not need to use the temporary borrowing facility in 2013/14.

(e) Overdraft

An overdraft limit of £2m has been agreed with the Co-operative Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2013/14 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(f) Internal Funds

Internal funds include all revenue reserves and other specific reserves maintained by the City Council, including the minimum revenue provision which is available to either repay debt or to be used instead of new borrowing. The cash held in internal funds such as earmarked reserves can be borrowed in the short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally.

6.2 It is recommended that no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council **(Recommendation 4.1(i)).**

7. APPORTIONMENT OF BORROWING COSTS TO THE HOUSING REVENUE ACCOUNT (HRA)

7.1 The Localism Act 2011 requires local authorities to allocate existing and future borrowing costs between council housing (the HRA) and the General Fund. It is for local authorities to choose an allocation method that achieves the principals detailed in their treasury management strategies.

7.2 It is proposed to operate with a single loans pool and apportion costs according to locally established principals. It is recommended that the principals upon which the apportionment of borrowing costs should be based are as follows **(recommendation 4.1(j))**:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;
- The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA.

7.3 For the purpose of apportioning borrowing costs it will be assumed that the HRA is under or over financed in the same proportion as the Council as a whole. The HRA will be charged interest at the Council's average cost of borrowing adjusted to take account of any under or over financing which will be charged at the average return on the Council's investments.

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

8.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to make “prudent provision” for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make “prudent provision” for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of “prudent provision” which the Council is legally obliged to “have regard” to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 9, 10, 11, 12 and 13 below.

9 GOVERNMENT- SUPPORTED BORROWING OTHER THAN FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

9.1 The Government has supported some local authority borrowing through the Formula Grant. Provision may be made for the repayment of existing and new government supported borrowing through the Capital Financing Requirement Method or the Regulatory Method.

9.2 For debt that is supported by Formula Grant, authorities are able to make revenue provision for the repayment by setting aside 4% of their Adjusted Non-Housing Capital Financing Requirement (CFR). The CFR represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The CFR is adjusted so that it excludes self-financed debt incurred after 1 April 2008. This is known as the CFR Method.

9.3 Alternatively, for debt that is supported by Formula Grant, authorities are able to continue to use the formulae in the previous regulations, since Formula Grant is calculated on that basis. This is known as the Regulatory Method. This method is also based on the CFR but is adjusted by the effect of the previous regulations. This method is more complex than the CFR method. However it is estimated that the MRP under this method will be £320k less per annum than under the CFR method. It is therefore recommended that the Regulatory Method of calculating MRP be applied to pre 1 April 2008 debt and new government supported debt **(Recommendation 4.1(k))**. This is the same method as that adopted for 2012/13.

10. SELF- FINANCED BORROWING OTHER THAN FINANCE LEASES, SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES AND BORROWING TO FUND FINANCE LEASES

10.1 For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, there are three options offered by the guidance, the Asset Life (Equal Instalment) Method, the Asset Life (Annuity) Method and the Depreciation Method. The guidance suggests that the Asset Life (Annuity) Method is only appropriate for projects where income or savings will increase over time. Both the Asset Life (Equal Instalment) Method and the Depreciation Method should result in a similar MRP. Of these two methods the Asset Life method is the simplest to calculate and therefore it is recommended that this method be used and that MRP begin to be made in the year after the asset is completed **(Recommendation 4.1(l))**. This is the same method as that adopted for 2012/13.

11 FINANCE LEASES AND ON BALANCE SHEET SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INIATIVE SCHEMES

11.1 The move to International Financial Reporting Standards has involved arrangements under the Private Finance Initiative (PFI) and service concessions coming onto the balance sheet. A part of the service charge or rent payable will be taken to reduce the balance sheet liability rather than being charged to the service revenue account. This accounting treatment is similar to that for finance leases. Under these leases the risks and rewards of asset ownership rest with the City Council and the assets are shown on the City Council's balance sheet. These leases are therefore in effect a form of borrowing. Statutory guidance allows, in the case of finance leases and on balance sheet service concessions including PFI contracts, the MRP requirement to be regarded as met by a charge equal to the element of the rent / charge that goes to write down the balance sheet liability. It is recommended that this methodology be used to calculate the MRP on finance leases and service concessions including PFI arrangements **(Recommendation 4.1(m))**.

12 SELF FINANCED BORROWING TO FUND FINANCE LEASES

12.1 Under these leases the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets with effect from 2012/13 **(recommendation 4.1(n))**. This is a departure from the MRP calculation for 2011/12 when the MRP on this borrowing was calculated using the Asset Life (Equal Instalment) method. The remainder of the rent will be credited to the revenue account as interest.

12.2 The only finance lease currently funded from self financed borrowing related to a fleet of refuse collection vehicles purchased by the Council in 2011/12 and leased to its refuse collection contractor. In accordance with paragraph 10 no provision was made for the repayment of this borrowing in 2011/12. The principal element of the rent received in 2011/12 was £224,672. It is recommended that this be provided for in 2012/13 and that it be funded from capital receipts **(recommendation 4.1(o))**.

13 HOUSING REVENUE ACCOUNT (HRA) BORROWING

13.1 There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self financing payment to the Government of £88.619m. It is recommended that the HRA provide for the repayment of this debt over 30 years in line with the HRA Business Plan **(recommendation 1(p))**. The HRA will continue its practice of not providing for its other debts.

14 ANNUAL INVESTMENT STRATEGY

14.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 15, to 21 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice.

14.2 During the year the Council may be asked to approve a revised strategy if there are investment issues which the full Council might wish to have brought to their attention.

14.3 The guidance defines a prudent policy as having two objectives:

- achieving first of all security (protecting the capital sum from loss);
- liquidity (keeping the money readily available for expenditure when needed).

Only when proper levels of security and liquidity have been secured should yield be taken into account.

14.4 Investment strategies usually rely on credit ratings and both the current and recommended Investment Strategies are based on credit ratings. Although the recommended Investment Strategy is based on credit ratings other sources of information will be taken into account prior to placing deposits such as information in the quality financial press and credit default swaps (CDS) prices.

14.5 CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay an agreed amount to the buyer of the credit default swap. Absolute prices can be unreliable; however trends in CDS spreads do give an indicator of relative confidence about credit risk.

15. INVESTMENT CONSULTANTS

15.1 The City Council currently employs consultants to provide the following information:

- Interest rate forecasts
- Credit ratings
- CDS prices

15.2 The City Council does not employ consultants to provide strategic advice.

16. SPECIFIED INVESTMENTS

16.1 The Government requires the Council to identify investments offering high security and high liquidity. These are known as specified investments. Specified investments will be made with the minimum of procedural formalities. They must be made in sterling with a maturity of no more than one year and must not involve the acquisition of share capital in any corporate body.

16.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. The credit ratings provided are as follows:

- Short Term Rating (measures an institution's suitability for short term investment)
- Long Term Rating (measures an institution's suitability for long term investment). These ratings are explained in Appendix D.
- Viability / Financial Strength Rating (where available measures the likelihood that an organisation will require assistance from third parties such as its owners or official institutions)
- Support Rating (where available measures a potential supporter's (either a sovereign state's or an individual owner's) propensity to support a bank and its ability to support it)

16. SPECIFIED INVESTMENTS (Continued)

16.3 The grades of short and long term credit rating are as follows with the best credit ratings at the top. The credit ratings that meet the City Council's investment criteria for specified investments are shaded.

Fitch		Moody's		Standard & Poor's	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
F1+	AAA	P-1	Aaa	A-1+	AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
F1	A+		A1	A-1	A+
	A	P-2	A2		A
	A-		A3	A-2	A-
F2	BBB+	P-3	Baa1	A3	BBB+
	BBB		Baa2		BBB
F3	BBB-		Baa3		BBB-

Support ratings are graded 1 to 5, with 1 being the highest rating.

16.4 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies **(Recommendation 4.1r).**

16.5 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. Sovereign credit ratings give an indication of a government's capacity to support its financial institutions. Sovereign credit ratings are also dependent on a government's ability to raise taxes and thus also give an indication of the state of a nation's general economy. It is recommended that investments should only be placed with institutions based in either the United Kingdom or states with an AA+ credit rating **(Recommendation 4.1q).**

16.6 When an institution or state has differing ratings from different agencies, the lowest rating will be used to assess its suitability. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.

16. SPECIFIED INVESTMENTS (Continued)

16.7 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies and corporate bonds that meet the Council’s investment criteria. Corporate bonds are tradable loan instruments issued by commercial companies. Credit ratings measure the risk of default, ie. the risk of not receiving principal and interest when it is due, across these institutions in a way that allows them to be compared. However, other measures of credit risk such as CDS prices are not available for all institutions including most building societies and commercial companies, and the risk of permanent loss following a default also varies according to the nature of the institution.

16.8 The risk of loss following a default is much smaller for building societies. The mutual ownership of building societies means that in the unlikely event of a building society failing, wholesale depositors such as the Council would almost certainly receive back the full amount of their investment with any losses falling on the society’s reserves and members deposits first. Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding.

16.9 Corporate bonds are likely to carry a higher risk of loss following default than banks as commercial companies may be of less systemic importance than banks and are less likely to be bailed out by their governments.

16. SPECIFIED INVESTMENTS (Continued)

16.10 It is proposed to divide the approved counter parties for specified investments into seven categories as follows:

Category	Limits	UK Government including investments explicitly guaranteed by the Government	Local Authorities	Money Market Funds	Banks	Building Societies	Corporate Bonds in Commercial Companies
1	Unlimited deposits up to 1,825 days	UK Government including investments explicitly guaranteed by the Government	Only if explicitly guaranteed by the Government	None	Only if explicitly guaranteed by the Government	Only if explicitly guaranteed by the Government	Only if explicitly guaranteed by the Government
2	£20m up to 1,825 days	None	Local authorities in England, Scotland & Wales	None	None	None	None
3	£20m up to 732 days	None	None	AAA	S/T F1+ / A1+ L/T AA- Viab'y / BFSR bbb / C- Support 1	S/T F1 / A1 L/T A+ Viab'y / BFSR bbb / C- Support 1	None
4	£15m up to 732 days	None	None	None	S/T F1 / A1 L/T A+ Viab'y / BFSR bbb / C- Support 1	S/T F1 / A1 L/T A Viab'y / BFSR bbb / C- Support 1	L/T AA-
5	£13m up to 366 days	None	None	None	S/T F1 / A1 L/T A Viab'y / BFSR bbb / C- Support 1	S/T F1 / A1 L/T A- Viab'y / BFSR bbb / C- Support 1	L/T A+
6	£10m up to 366 days	None	None	None	S/T F1 / A2 L/T A- Viab'y / BFSR bbb / C- Support 1	None	L/T A
7	£6m up to 366 days	None	None	None	None	None	L/T A-

16.11 It is proposed that the bodies meeting the criteria of categories 1 to 7 in paragraph 16.10 be approved as repositories of specified investments of the City Council's surplus funds **(Recommendation 4.1(r)).** A list of financial institutions currently meeting the Councils investment criteria is contained in Appendix E. There are too many companies issuing corporate bonds to include in the list.

16. SPECIFIED INVESTMENTS (Continued)

16.12 It is recommended that the credit ratings be reviewed monthly and that any institution whose lowest credit rating falls below the criteria for category 7 in paragraph 16.10 be removed from the list of specified investments **(Recommendation 4.1(s)).**

16.13 It is recommended that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category **(Recommendation 4.1(t)).**

17. NON-SPECIFIED INVESTMENTS

17.1 The Government's Guidance requires that other less secure types of investment be identified and that a limit be set on the overall amount that may be held in such investments at any time in the year. Non-specified investments are investments that are not secure, ie. do not have an "A" credit rating or are not liquid, ie. have a maturity in excess of 364 days. Investments that are not denominated in sterling would also be non-specified investments due to exchange rate risks.

17.2 43% of the Council's investments are currently placed with local authorities due to the absence of a sufficient number of counter parties. Whilst other local authorities offer security, they only offer a modest return. It is estimated that the average amount of cash invested in 2013/14 will be £262m. In order to reduce the risks associated with placing funds with a relatively small number of counter parties and to improve returns it is recommended that further categories be established for non-specified investments that do not meet the criteria for specified investments.

<u>Category 8 - £10m for 366 days</u>
Short Term – F2 (or equivalent from Moody's and Standard & Poor)
Long Term – BBB or better (or equivalent from Moody's and Standard and Poor)
Viability / BFSR – bbb / C-
Support – 5

Category 8 will consist of rated building societies that meet the above criteria.

17. NON-SPECIFIED INVESTMENTS (Continued)

The building societies included in category 8 do not have sufficient systemic importance to make a Government rescue likely if they get into financial difficulties. However building societies do not typically have exposure to the Euro zone or riskier investment banking activities. In addition there is an established tradition of intra sector support and when building societies have got into financial difficulties they have always been taken over by another building society.

Category 9 - £6m for 366 days

Many smaller building societies that have been more conservative in their lending approach do not have credit ratings. An analysis of building society accounts suggests that many of those without credit ratings are in a better financial position than some of the larger ones who do hold credit ratings.

17. NON-SPECIFIED INVESTMENTS (Continued)

The limits on some building societies is less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Nottingham	£6.0m
Progressive	£6.0m
Cambridge	£5.0m
Furness	£4.0m
Leek United	£3.9m
Monmouthshire	£3.7m
Newbury	£3.4m
Hinkley & Rugby	£2.9m
Darlington	£2.6m
Market Harborough	£2.2m
Melton Mowbray	£1.9m
Tipton and Crossley	£1.8m
Marsden	£1.7m
Hanley Economic	£1.7m
Scottish	£1.7m
Dudley	£1.6m
Loughborough	£1.4m
Mansfield	£1.3m
Vernon	£1.3m
Harpenden	£1.1m

17. NON-SPECIFIED INVESTMENTS (Continued)

17.3 The Co-operative Bank has merged with the Britannia Building Society. The Britannia Building Society was a financially weaker institution. The Co-operative Bank is also in the process of acquiring some branches of Lloyds TSB. These factors have resulted in Fitch downgrading the Co-operative Bank's long term credit rating to BBB+ and placing it on negative watch. The Council's investment criterion for specified investments (categories 1 to 7) is a long term rating of at least A-. The Co-operative Bank does not meet the criteria for categories 8 and 9 as it is not a building society. The Co-operative Bank offers very competitive interest rates on investments which are out of line with the market. Whilst this does not mean that the Co-operative Bank is in financial difficulties, Northern Rock, the Icelandic banks and the Irish banks all offered interest rates on deposits that were much higher than the rest of the market. For these reasons and because the Co-operative Bank is the Council's main bank it is felt that investments in the Co-operative Bank should be kept to a short tenure. Therefore it is recommended that a further investment category be created.

<u>Category 10 - £6m for 95 days</u>
Short Term – F3 (or equivalent from Moody's and Standard & Poor)
Long Term – BBB or better (or equivalent from Moody's and Standard and Poor)
Support – 3

17.4 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd in two ways. Firstly the Council has £550k lodged with Lloyds TSB to guarantee MMD's banking limits. The Council also lends MMD its insurance premium of £300k.

17.5 The Annual Investment Strategy provides for the Council to lend to the United Kingdom Government and local authorities in England, Scotland and Wales for five years, and AA rated banks for two years. The Annual Investment Strategy also provides for all other investments except for category 10 to have a term of up to 366 days. Financial institutions may prefer 366 day investments as they are beneficial to them in meeting financial regulations and this may provide a means of increasing investment returns without significantly increasing credit and liquidity risk. However as these investments would be just over a year they cannot be included as specified investments.

17. NON-SPECIFIED INVESTMENTS (Continued)

17.6 The Council sometimes enters into contracts denominated in foreign currencies. Such contracts normally relate to civil engineering schemes at the port. It can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.

17.7 It is recommended that non-specified investments should be limited to the following (**Recommendation 4.1 (u))**:

	£
Financial institutions that are domiciled in the UK & have very limited exposure to the Euro zone periphery & investment banking	72m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	108m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**187m**

18. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

18.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, it is proposed that the total amount that can be directly invested with any organisation at any time should be limited as follows **(Recommendation 4.1(v)):**

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 1,825 days
Category 2	£20m for up to 1,825 days
Category 3	£20m for up to 732 days
Category 4	£15m for up to 732 days
Category 5	£13m for up to 366 days
Category 6	£10m for up to 366 days
Category 7	£6m for up to 366 days
Category 8	£10m for up to 366 days
Category 9	£6m for up to 366 days
Category 10	£6m for up to 95 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 366 days

18.2 It is recommended that the Head of Financial Services and Section 151 Officer be given delegated authority to revise the total amount that can be directly invested with any organisation at any time **(Recommendation 4.1(w)).**

18. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS (Continued)

18.3 AAA money market funds offer security and same day access. By aggregating investments they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. The Council will only invest in money market funds that are managed by major banks with considerable investment expertise. Although AAA money market funds are well diversified in their investments there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore it is proposed that the Council should aim to have no more than £70m invested in money market funds with an absolute limit of £80m.

18.4 Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

18.5 In order to minimise systemic credit risk in any sector it is recommended that the following limits be applied **(Recommendation 4.1(x))**:

Money market funds	£80m
Building societies	£107m

18.6 In order to minimise systemic credit risk in any region it is recommended that the following limits be applied **(Recommendation 4.1(y))**:

Asia & Australia	£40m
Americas	£40m
Continental Europe	£25m

18. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS (Continued)

18.7 The limits above only apply to direct investments. The City Council's exposure to any institution, sector or region may exceed the limits stated above through indirect investments via money market funds. Money market funds employ specialist staff to assess counter party risks and all investments made by money market funds are short-term.

19. LIQUIDITY OF INVESTMENTS

19.1 The City Council maintains a three year cash flow forecast which is updated daily (See Appendix B). This forecast is used to determine the maximum period for which funds may be prudently committed. ie. the City Council's core cash. This forecast has been used to set the limits on total principal sums invested for periods longer than 364 days (see paragraph 4.7). The City Council maintains at least £10m invested on an instant access basis to ensure that unforeseen cash flows can be financed.

20. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

20.1 Section 12 of the Local Government Act gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

20.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate.

20.3 In 2011/12 the Council was required to pay the Government £88.6m under the Housing Revenue Account self financing scheme.

20. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED (Continued)

20.4 With the expected direction of future gilt yields being upwards, £84m was borrowed from the PWLB in the spring and summer of 2012 for between 20 and 50 years at rates of between 4.19% and 5.01%.

20.5 On 29 September the Chief Secretary to the Treasury announced that local authorities would be allowed to borrow from the Public Works Loans Board (PWLB) at National Loans Fund (NLF) rates to fund the HRA Self Financing payment. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The PWLB made NLF rates available to local authorities on 26 March 2012 for the purposes of funding HRA Self Financing payments. Despite local authorities being given indicative HRA Self Financing payment figures before the start of 2012/13 year, there was no indication that the PWLB would offer loans at NLF rates prior to 29 September. The only way that the Council could benefit from these interest rates was to borrow in advance of need.

20.6 The Head of Financial Services and Section 151 Officer was given delegated authority to borrow up to £50m in advance of need as measured by the Capital Financing Requirement in 2011/12**.** This was the estimated borrowing required to support the Council's capital programme until 2016/17. Consequently the Council's gross debt exceeds its estimated capital financing requirement by £17.4m at the end of 2012/13. This balance will be used to fund future capital investment by the Council.

21. TRAINING OF INVESTMENT STAFF

21.1 The Finance Manager (Technical & Financial Planning) manages the treasury function with assistance from the Senior Financial Planning Accountant. Both these officers are qualified Chartered Public Finance Accountants and hold the Association of Corporate Treasurers Certificate in International Treasury Management. The City Council is also a member of CIPFA's Treasury Management Forum which provides training events throughout the year. Additional training for investment staff is provided as required.

22. DELEGATED POWERS

22.1 Once the Treasury Policy has been approved, the Head of Financial Services and Section 151 Officer has delegated powers under the Standing Orders of the City Council, to make all executive decisions on borrowing, investments or financing in accordance with CIPFA's 'Code for Treasury Management in the Public Services'.

23. TREASURY SYSTEMS AND DOCUMENTATION

23.1 Once the Policy Statement has been approved by the Council, the documentation of the Treasury Systems will be updated so that all employees involved in Treasury Management are clear on the procedures to be followed and the limits applied to their particular activities.

23.2 The Treasury Management Practices document covers the following topics: -

- risk management
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

24. REVIEW AND REPORTING ARRANGEMENTS

24.1 The Head of Financial Services and Section 151 Officer will submit the following:-

(i) an annual report on the treasury management outturn to the Council by 30 September of the succeeding financial year

(ii) a mid year review to the Council

(iii) the Annual Strategy Report to the Council in March 2013

(iv) quarterly treasury management monitoring reports to the Cabinet and the Governance and Audit and Standards Committee