CABINET

Budget and Policy Framework 2014/15 – Treasury Management
11 February 2014

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report sets out the 2014/15 Treasury Management framework for Cabinet's approval and referral on to Council.					
Key Decision	x	**Non-Key Decision**		**Referral**	
Date of notice of forthcoming Key Decision	**13 January 2014**				
This report is public.					

OFFICER RECOMMENDATIONS:

1. **That the Finance Portfolio Holder be given delegated authority to finalise the Treasury Management Framework, as updated for Cabinet's final budget proposals, for referral on to Council.**

1 **INTRODUCTION**

1.1 The CIPFA Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to cover various forecasts and activities.

1.2 To give context, the Quarter 3 monitoring report for the current year is included at ***Appendix A*** for information.

2 **TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2014/15 to 2016/17 is set out at ***Appendix B*** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix C*** and the policy statement is presented at ***Appendix D***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals, as far as possible at this stage, but there has been only limited time available to update the framework following the last Council meeting Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Council. For these reasons, delegated arrangements are being sought for finalising the framework, prior to it being referred on to Budget Council.

2.3 **Borrowing Aspects of the Strategy**

2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to reduce over the next three years for the General Fund capital programme. It is also projected that the HRA capital programme will not require any additional borrowing.

2.4 **Investment Aspects of the Strategy**

2.4.1 Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

2.4.2 Overall, the strategy put forward follows on from 2013/14 in that it is based on the Council having a low risk appetite with focus on high quality deposits.

2.4.3 There is a cost linked to a very low risk strategy as instant access accounts with good quality counterparties have relatively low yields. Markets are starting to offer significantly improved rates for longer term deposits with rates of 1.10% for a 12 month deposit (offered by Lloyds TSB as at 08/01/2013). This is in comparison to 0.54% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £41K above that for the Council 'average' investment. A reasonable balance needs to be made.

3 **CONSULTATION**

3.1 Officers have liaised with Capita Asset Finance, the Council's Treasury Advisors, in developing the proposed framework.

4 **OPTIONS AND OPTIONS ANALYSIS**

4.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix B, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such, no further options analysis is available at this time.

4.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a low risk appetite regarding investments. It is stressed in terms of treasury activity, there is no risk free approach. It is felt though that the measures set out above provide a sound framework within which to work over the coming year.

RELATIONSHIP TO POLICY FRAMEWORK
This report covers the Council's Treasury Management Policy, and fits with the development of the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No direct implications arising.

FINANCIAL IMPLICATIONS
The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft budget.

SECTION 151 OFFICER'S COMMENTS
This report forms part of the s151 Officer's responsibilities and is in her name (as Chief Officer (Resources)).

LEGAL IMPLICATIONS
Legal Services have been consulted and have no comments to add at this stage.

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments at this stage.

BACKGROUND PAPERS None	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

APPENDIX A

2013/14 Treasury Management Progress Report to 31 December 2013

Report of Chief Officer (Resources)

1. Introduction

The CIPFA Code of Practice on Treasury Management requires that regular monitoring reports be presented to Members on treasury activities. These reports will normally be presented after the end of June, September, December and March as part of the Council's performance management framework.

Council approved the 2013/14 Treasury Strategy, which incorporates the Investment Strategy, at its meeting on 27 February 2013. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Quarter 3.

Treasury management is a technical area. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached to the Treasury Management Strategy. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management and an updated Guide is now available through the Member Information section on the Intranet.

2. Economic Update (provided by Capita Asset Services)

After strong UK growth of 0.7% in Quarter 2 and 0.8% in Quarter 3, it appears that UK GDP is likely to have grown at an even faster pace in Quarter 4 of 2013. Forward surveys are also very encouraging in terms of strong growth and there are positive indications that recovery is broadening away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC before it said it would consider any increases in Bank Rate, than it expected last August when that threshold was initially set. Accordingly, markets are expecting a first increase in early 2015 though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in real incomes, before they would consider raising the Bank Rate.

Also encouraging has been a sharp fall in inflation (CPI) to 2.1% in November and forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and fostered optimism for achieving a balance in the cyclically adjusted budget within five years, a year earlier than previously forecast.

The big news in financial markets was that the Federal Reserve, in December, felt sufficiently confident that the premise for strong growth had been established in America that it could start to taper its asset purchases by reducing them by $10bn per month from January 2014. These encouraging growth scenarios in the USA and UK led to a sharp jump up, in December, in short dated gilts; this, accordingly, impacted on 5 and 10 year PWLB rates.

3. Icelandic Investments Update

There was an eleventh dividend paid on the 20 December 2013 in relation to the Council's investment with KSF which represented 3% of the original claim. The total amount of the claim that has been recovered to date equates to 82%. According to the Administrators Progress Report the estimate of the total dividends to non-preferential creditors, which includes the Council, remains at 85-86%.

Lancaster City Council's remaining investment with Glitnir was repaid in full on 17 March 2012. Part of this repayment was in Icelandic Krona and is currently held within an escrow account. These funds have been accruing interest, net of tax charged by the Icelandic Tax Authority. Officers have been successful in reclaiming this tax, which amounted to £3,626. The Council will be exempt from paying this tax in the future and will continue to accrue interest at a rate of 4.2%.

Officers have instructed Bevan Brittan to include Lancaster City Council's claim with Landsbanki, which currently has a value of £519K, within an auction held by Deutsche Bank. A reserve price has been specified so proceeds cannot fall below a certain price. This sale (in Quarter 4) would ensure certainty of the recovery of the majority of our claim.

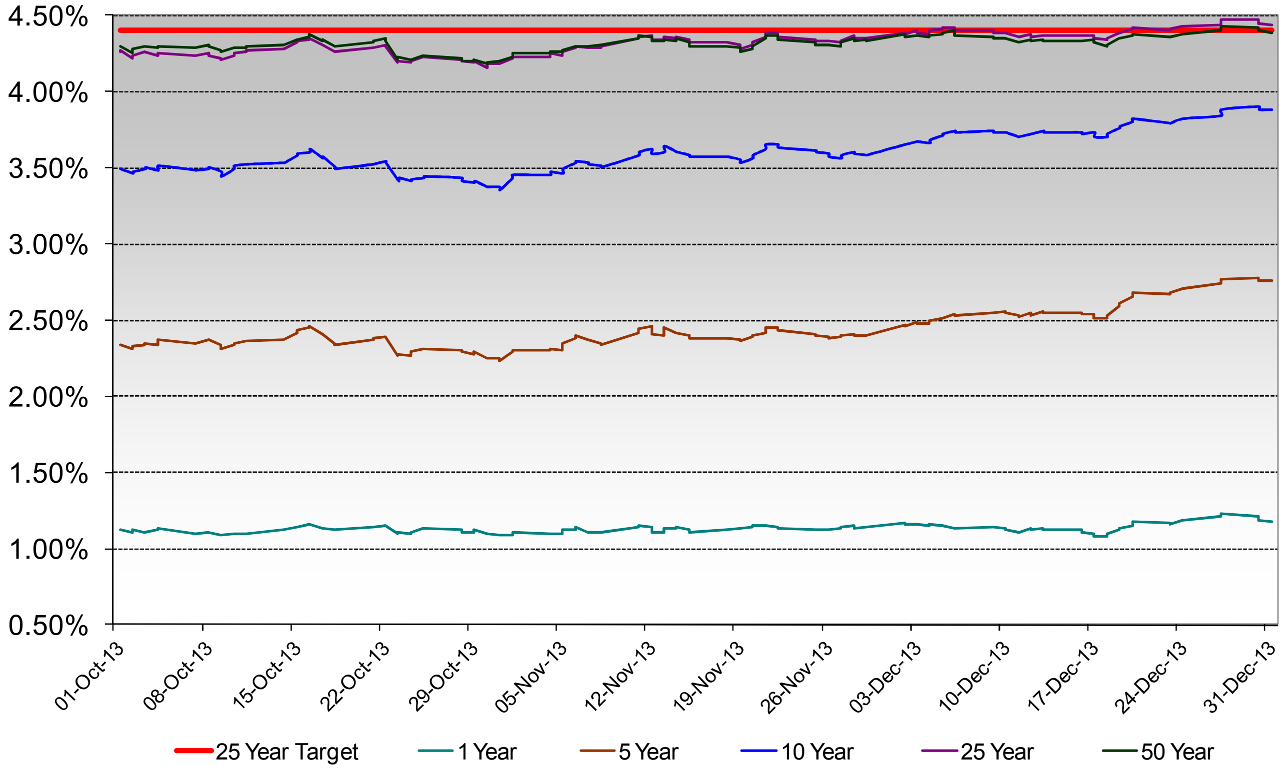
The following table shows the outstanding balances:

	KSF £000	**Glitnir £000**	**Landsbanki £000**	**Total £000**
Deposit	2,000	3,000	1,000	6,000
Claim	2,048	3,173	1,121	6,342
GBP Payments received	1,669	2,508	585	4,762
Amounts still held in ISK		604	8	612
Total anticipated recovery (%)	86.50%	100%	92%	
Further payments due (%)	4.50%	0%	38%	
Further payments due (£000)	92	0	429	521
Total anticipated receipts	**1,761**	**3,112**	**1,022**	**5,895**

*These are earning interest but are also subject to currency fluctuations, these sums will be repatriated once Icelandic currency controls allow.

4. Current Borrowing Rates.

No new borrowing was undertaken during Quarter 3. The following graph shows the PWLB rates for the last three months ending 31 December 2013.



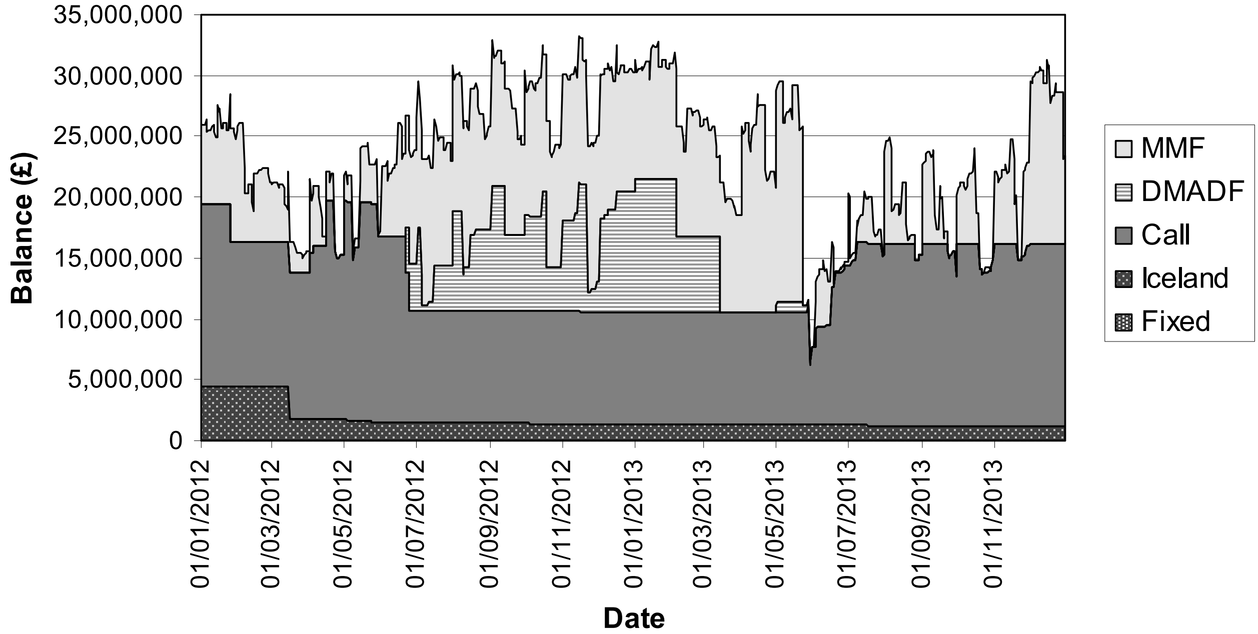
Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. At present, there are no opportunities that could generate long term savings.

5. Investing Activities

As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the Council's investments. This is to ensure that the Council has sufficient cash to support its business, but also to minimise any further chance of a counterparty failing and the Council not being able to remove any cash deposited.

All investment activity has been in line with the approved Treasury Strategy for 2013/14. No fixed term investments have been placed; surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of Quarter 3 is shown in **ANNEX A**.

Investment pattern for the prior 2 years



During the third quarter the Council has maximised its investment in the county call account, as far as possible. Furthermore, the account with RBS has been given preference, particularly over MMFs, due to the higher interest rate available. This consideration of return is in view of the extent of RBS' Government backing and the impact on security; it remains part-nationalised but the position is closely monitored. If backing by the Bank of England is removed, the bank's associated credit ratings and other relevant information would take precedence.

6. Summary of Budget Position and Performance

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows:

Base Rate	0.500%
7 day LIBID	0.464%
Lancaster City Council investments	0.482%

In terms of performance against budget, the details are as follows:

Budget to date:	
Icelandic interest	£29K
Interest on investments	£69K
Total	£98K
Actual to date:	
Icelandic interest	£27K
Interest on investments	£71K
Total	£98K
Variance	£ 0K

The adverse variance on the Icelandic credits is due to the distributions in relation to Lancaster City Council's Landsbanki claim being less than was expected and therefore less interest has been accrued. The cash credits are slightly higher than expected as cash balances are slightly higher than expected due to operational delays associated with the capital programme.

The return is just below base rate but is better than the 7 day LIBID benchmark, which is positive given that the Council's investments are in the main on instant access. In absolute terms, the rate of return is very modest but given that the Council has continued to focus on secure and highly liquid deposits, it is considered reasonable.

7. Risk Management

There has been no material change in the policy or operation of the treasury function over the Quarter, in recognition of the considerable uncertainty that exists within the economy and financial sector. The view is, therefore, that residual counterparty risk exposure for investment remains low.

The majority of outstanding Icelandic investments relate to money held with Landsbanki, where approximately 46% is yet to be distributed. Our claim is registered in Icelandic Krona and is therefore subject to exchange rate risk. If the Icelandic Krona weakens against the British pound, less money will be recovered. There is also uncertainty over the timing of dividend payments so there is a risk of our claim being devalued due to the time value of money. There is also a large amount of money held in an escrow account relating to our investment with Glitnir. These funds again expose the Council to the above risks, however these funds are subject to the Icelandic currency controls rather than the activities of the LBI Winding up board.

There is financial risk attached to the longer term debt portfolio, associated with interest rate exposure but all of the debt is on fixed interest and there has been no change to this over the Quarter. Low investment returns mean that using cash invested to repay debt can appear more attractive, but the Council is not yet in a position to be following such a strategy.

Cash balances held with The Cooperative Bank continue to be monitored on a daily basis following the banks crisis in relation to a £1.5bn funding gap. The bank falls short of the council credit rating criteria and has not been on our approved lending list for some time. The Cooperative Bank was initially downgraded then immediately upgraded following the vote between junior bondholders to undergo a recapitalisation exercise.

8. Prudential Indicators

These indicators are prescribed by the Prudential Code to help demonstrate that the Council can finance its debt and have funds available when needed. The prudential indicators are listed in ***Appendix B*****;** and have been updated to reflect the current capital position and they will be referred on to Council in due course, allowing for further updates as need be to reflect other budget changes.

9. Conclusion

Treasury activity during Quarter 3 followed in the same vein as Quarter 2. Monitoring developments linked to transactional services (and the Co-op Bank) are high on the agenda. Although the Cooperative Banks' recapitalisation has improved their credit rating viability score their control has been shifted and investors may move through a fear of ethical change within the bank.

ANNEX A

Investment Interest Earned 31 December 2013

Icelandic Investments	Opening		Closing		Rate	Cumulative Interest	
Deposited 2007/08							
Landsbanki Islands	£	465,329	£	519,265	6.25%	£	21,882
Glitnir	£	629,429	£	629,429	4.22%	£	19,918
Deposited 2008/09							
Kaupthing, Singer & Friedlander	£	146,104	£	41,240	6.00%	£	6,708
Sub total	£	1,240,861.50	£	1,189,933.82		£	48,507.72

Other Investments	Opening		Min		Max		Closing		Indicative rate	Cumulative Interest £	
Call: RBS	£	3,000,000	£	3,000,000	£	3,000,000	£	3,000,000	0.70%	£	13,659
Call: Barclays	£	-	£	-	£	-	£	-	0.55%	£	185
Call: Lancashire County Council	£	12,000,000	£	9,538,000	£	12,000,000	£	12,000,000	0.50%	£	40,057
DMADF	£	-	£	-	£	-	£	-	0.25%	£	-
Government Liquidity MMF	£	-	£	-	£	3,114,000	£	-	0.30%	£	1,723
Liquidity First MMF.	£	4,089,000	£	-	£	6,000,000	£	6,000,000	0.39%	£	10,310
Insight MMF	£	-	£	-	£	6,000,000	£	1,274,000	0.33%	£	5,820
Sub-total	£	19,089,000					£	22,274,000		£	71,753
									Budgeted income	£	101,336

*Under 2009 accounting guidance, interest continues to be accrued whilst Icelandic investments are on the councils balance sheet. To counter the, however, the provisions made to cover any losses take account of this accrued interest, as well as principle sums (£4.84m invested).

APPENDIX B

Treasury Management Strategy 2014/15 to 2016/17

Draft for Consideration by Cabinet 11 February 2014

1 INTRODUCTION

1.1 Background

The Council operates using detailed Revenue and Capital budgets which inform and control expenditure in line with expected income streams. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

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."

1.2 Reporting requirements

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

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

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

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

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

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Cabinet and the Budget and Performance Panel.

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. The training has been arranged to be undertaken by members on the 04 March 2014 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	5.32	16.98	10.17	3.91	4.03
HRA	3.89	4.87	4.79	4.93	4.66
Total	**9.21**	**21.85**	**14.96**	**8.84**	**8.69**

Other long term liabilities - the above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Capital expenditure £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	5.32	16.98	10.17	3.91	4.03
HRA	3.59	4.87	4.79	4.93	4.66
Total	8.91	21.85	14.96	8.84	8.69
Financed by:					
Capital receipts	0.44	8.10	0.99	0.68	0.42
Capital grants	1.01	3.81	1.56	0.99	1.03
Capital reserves	4.45	5.41	5.24	5.08	4.68
Revenue	0.40	0.13	0.43	0.05	0.10
Net financing need for the year	**2.60**	**4.40**	**6.18**	**2.04**	**2.46**

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

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the

Council is not required to separately borrow for these schemes. The Council currently has £425K of vehicle leases within the CFR.

The Council is asked to approve the CFR projections below:

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
CFR – non housing	37.57	40.43	45.25	45.80	46.70
CFR – housing	45.51	44.47	43.43	42.39	41.35
Total CFR	83.08	84.90	88.68	88.19	88.05
Movement in CFR	-0.04	1.82	3.78	-0.49	-0.14

Movement in CFR represented by					
Net financing need for the year (above)	2.60	4.40	6.18	2.04	2.46
Less MRP/VRP and other financing movements	-2.64	-2.57	-2.40	-2.53	-2.60
Movement in CFR	-0.04	1.82	3.78	-0.49	-0.14

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 01 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over the approximate life of the asset.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

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

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Fund balances/reserves	21.42	21.16	21.30	22.02	21.45
Capital receipts	0.11	0.09	0.09	0.12	0.15
Provisions	0.51	0.42	0.42	0.42	0.42
Other					
Total core funds					
Working capital*	3.35	3.35	3.35	3.35	3.35
Under/over borrowing**	-6.59	-8.41	-12.19	-11.70	-11.56
Expected investments	18.80	16.61	12.97	14.21	13.81

*Working capital balances shown are estimated year end; these may be higher mid year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to 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.

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	16%	13%	12%	12%	13%
HRA	24%	23%	22%	22%	21%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D Council Tax

£	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council Tax - Band D	1.46%	0.88%	5.72%	1.71%	0.47%

2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

£	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Weekly housing rent levels	0.62	0.32	2.20	0.67	0.19

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3 BORROWING

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

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt					
Debt at 1 April	76.11	74.43	72.59	76.94	76.63
Expected change in Debt	-0.04	1.82	3.78	-0.49	-0.14
Other long-term liabilities (OLTL)	5.49	0.42	0.24	0.13	0.04
Expected change in OLTL	-5.06	-0.19	-0.11	-0.09	-0.04
Actual gross debt at 31 March	76.49	76.49	76.50	76.49	76.49
The Capital Financing Requirement	83.08	84.90	88.68	88.19	88.05
Under / (over) borrowing	6.59	8.41	12.19	11.70	11.56

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Officer (Resources) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	84.26	88.22	88.33	87.93
Other long term liabilities	0.42	0.24	0.13	0.04
Total	84.68	88.46	88.46	87.97

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limits:

Authorised limit £m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	101.00	104.00	104.00	104.00
Other long term liabilities	1.00	1.00	1.00	1.00
Total	102.00	105.00	105.00	105.00

3.3 Prospects for interest rates

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors of services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The Chief Officer (Resources), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short term.

Borrowing will only be taken on once a liability has been established although the timing of the borrowing may precede the point at which the liability actually falls due for payment. This would only be done to secure a preferential position for the Council, for example to benefit from lower interest rates.

With the likelihood of rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year. The benefit of this will be balanced against the risks attached to the more frequent refinancing that would be required.

The option of postponing borrowing and running down investment balances will also be considered, this would have the added benefit of further reducing counterparty risk and also could improve the revenue situation with the cost of loans currently far outweighing the return on investments.

3.5 Policy on borrowing in advance of need

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

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflect in the eyes of each agengy. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Annex A2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

4.2 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Chief Officer (Resources) – S151 Officer, will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

Banks 1 - Good Credit Quality

The Council will only use banks that:

- are UK banks; or
- are non-UK but are domiciled in an EU country with a long term sovereignty rating of AAA,

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 3):

i. Short Term: F1/P-1/A-1

ii. Long Term: A/A2/A

iii. Individual Viability / Financial Strength: bb+/C (Fitch / Moody's only)

iv. Support: 3 (Fitch only)

The ranking of these ratings is given in ANNEX B.

Banks 2 – Part nationalised UK banks

Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or if they meet the ratings in Banks 1 above. Limits on the investment term will be set at £3M for 100 days.

Banks 3 – The Council's own Banker

The bank may be used for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Building Societies – all Societies that meet the ratings for banks outlined above.

Money Market Funds – AAA-rated sterling funds with constant unit value.

UK Government – Debt Management Account Deposit Facility (DMADF)

Local Authorities (including Police and Fire Authorities), Parish Councils

Supranational institutions (e.g. European Central Bank)

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in *Banks 1* above. In addition:

- no more than 25% will be placed with any one non-UK country at any time;
- limits in place above will apply to Group companies (e.g. Natwest and RBS count as a single counterparty);
- Capita Asset Services limits will be monitored.

Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Minimum across all three ratings				
	Fitch	Moody's	Standard & Poors	Money Limit[8]	Time Limiit[9]
Upper Limit[1]	F1+/AA-	P-1/AA3	A-1+/AA-	£6M	Instant access only
				£6M	100 days
Middle Limit[2]	F1/A	P-1/A2	A-1/A	£3M	Instant access only
Other Institutions[3]	N/A	N/A	N/A	£6M	1 Year
Lancashire County[4]	N/A	N/A	N/A	£12M	1 Year
Money Market Funds[5]	AAA	AAA	AAA	£6M	Instant Access Only
DMADF deposit[6]	N/A	N/A	N/A	No limit	1 Year
Sovereign rating to apply to all non UK counterparties[7]	AAA	AAA	AAA	N/A	N/A

Notes:

1 & 2: **The Upper and Middle Limits apply to appropriately rated banks and building societies.**
3: **The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB), and part-nationalised banks.**
4: **This recognises the special status of Lancashire County Council as the City Council's upper tier authority.**
5: **Sterling, constant net asset value funds only.**
6: **The DMADF facility is direct with the UK government; it is extremely low risk.**
7: **UK counterparties are defined as those listed under UK banks or building societies in the Capita Asset Services counterparty listing.**
8: **Money limits apply to principal invested and do not include accrued interest.**
9: **Time Limits start on the trade date for the investment.**

4.3 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2014/15	0.50%
2015/16	0.50%
2016/17	0.69%
2017/18	2.00%

4.4 Icelandic bank investments

Officers will continue to report to Cabinet on the outstanding claim balances with the failed Icelandic banks (Lansbanki and KSF). Alternative methods for recovering the outstanding claims, such as a sale of claim to a third party, will be considered and reported when required.

4.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

ANNEX A1

Treasury Management Glossary of Terms

- **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

- **Call account** – instant access deposit account.

- **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.

- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor's, and Moody's. They analyse credit worthiness under four headings:

  - **Short Term Rating** – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.

  - **Long Term Rating** – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.

  - **Individual/Financial Strength Rating** – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.

  - **Legal Support Rating** – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

  The rating agencies constantly monitor information received regarding financial institutions, and will amend the credit ratings assigned as necessary.

- **DMADF and the DMO –** The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.

- **EIP –** Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment.

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.

E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

- **LIBID** – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.

- **LIBOR** – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.

- **Liquidity** – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Maturity** – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status.

- **Policy and Strategy Documents** – documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.

- **Capita Asset Services** – Capita Asset Services are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.

- **Yield** – see Gilts

Members may also wish to make reference to *The Councillor's Guide to Local Government Finance.*

ANNEX A2

Definitions of Specified and Non Specified Investments

See the detailed Investment Strategy included in ***Appendix B***, for the limits to be applied.

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS These are to be sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Council 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 considered negligible. These include investments with: (i) The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity). (ii) Supranational bonds of less than one year's duration. (iii) A local authority, parish council or community council. (iv) An investment scheme that has been awarded a high credit rating by a credit rating agency. (v) A body with high credit quality (such as a bank or building society). For category (iv) this covers a money market fund AAA rated by Standard and Poor's, Moody's or Fitch rating agencies.

2. Non-specified Investments are defined as follows:

   Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments are set out below. Non specified investments not explicitly referred to below are excluded.

Ref	Non Specified Investment Category	Limit
(i)	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	Included as per section 4.2
(ii)	Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised.	Included as per section 4.2
(iii)	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Included as per section 4.2

ANNEX B

Background information on credit ratings

Credit ratings are an important part of the Authority's investment strategy. The information below summarises some of the key features of credit ratings and why they are important.

What is a Credit Rating?

A credit rating is:

- An independent assessment of an organisation;
- It gauges the likelihood of getting money back on the terms it was invested;
- It is a statement of opinion, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

Who Provides / Uses Credit Ratings?

There are three main ratings agencies, all of which are used in the Authority's treasury strategy.

- Fitch
- Moody's Investor Services
- Standard & Poors

The ratings supplied by these agencies are used by a broad range of institutions to help with investment decisions, these include:

- Local Authorities;
- Other non-financial institutional investors;
- Financial institutions;
- Regulators;
- Central Banks;

Rating Criteria

There are many different types of rating supplied by the agencies. The key ones used by the Authority are ratings to indicate the likelihood of getting money back on terms invested. These can be split into two main categories:

- 'Short Term' ratings for time horizons of 12 months or less. These may be considered as the most important for local authorities.

- 'Long Term' ratings for time horizons of over 12 months. These may be considered as less important in the current climate.

In addition, the agencies issue sovereign, individual and support ratings which will also feed into the investment strategy.

Rating Scales (Fitch, Moody's and Standard & Poors)

The table below shows how some of the higher graded short and long term ratings compare across the agencies; the top line represents the highest grade possible. (There are other ratings that go much lower than those shown below, and ratings for other elements).

Short Term			**Long Term**		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
F1	P-1	A-1	AA	Aa2	AA
F2	P-2	A-2	A	A2	A

APPENDIX C

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES
For Consideration by Cabinet 11 February 2014

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2011).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code November 2011.
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.
TREASURY MANAGEMENT PRACTICES	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: *TMP 1:* Risk management *TMP 2:* Performance measurement *TMP 3:* Decision-making and analysis *TMP 4:* Approved instruments, methods & techniques *TMP 5:* Organisation, clarity and segregation of responsibilities, and dealing arrangememts. *TMP 6:* Reporting requirements & management information requirements *TMP 7:* Budgeting, accounting & audit *TMP 8:* Cash & cash flow management *TMP 9:* Money laundering *TMP 10:* Staff training & qualifications *TMP 11:* Use of external service providers *TMP 12:* Corporate governance Any changes to the above principles will require Cabinet approval. It is the Chief Officer (Resources) responsibility to maintain detailed working documents and to ensure their compliance with the main principles. Quarterly treasury management reports will continue to be reported through to Members.

APPENDIX D

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For noting by Cabinet 11 February 2014

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2011).

1. This organisation defines its treasury management activities as:

   "The management of the 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".

2. This organisation 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 and any financial instruments entered into to manage these risks.

3. This organisation 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 measurement techniques, within the context of effective risk management.