Manchester City Council
Report for Resolution

Report to: Executive – 15 February 2016
Council – 4 March 2016

Subject: Treasury Management Strategy Statement & Borrowing Limits and Annual Investment Strategy 2016-17

Report of: City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2016/17 and Prudential Indicators for 2016/17 to 2018/2019.

Recommendations

The Executive is requested to:

1. Recommend the report to Council; and

2. Delegate authority to the City Treasurer, in consultation with the Executive Member for Finance, to approve changes to the borrowing figures as a result of changes to the Council's Capital budget and submit to Executive.

The Council is requested to

1. Approve the proposed Treasury Management Strategy Statement, in particular:

- The Treasury Indicators listed in Appendix A of this report
- The MRP Strategy outlined in Appendix B
- The Treasury Management Policy Statement at Appendix C
- The Treasury Management Scheme of Delegation at Appendix D
- The Borrowing Requirement listed in section 5
- The Borrowing Strategy outlined in section 8
- The redemption of Council Stock described in section 8
- The Annual Investment Strategy detailed in section 9

2. Delegate to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources, the power to pursue any restructuring, rescheduling or redemption opportunities available, including if it requires changes to the Treasury Management Strategy. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Wards Affected:

Not Applicable

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report sets out the Treasury Management Strategy for the Council for 2016/17. As such, it is aligned with the Medium Term Financial Plan, which sets out a framework for delivery of a balanced budget, aligned to the priorities of the Community Strategy.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The revenue implications of the borrowing estimates set out in the report have been incorporated into the estimated revenue budgets set for 2016/17.

Financial Consequences – Capital

None.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Treasury Management Strategy Report framework provided by Capita Asset Services (Treasury Advisors)

1. Introduction

1.1. Background

Treasury management is defined 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. Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as section 9 of this report); the Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from the 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3. CIPFA requirements

The CIPFA Code of Practice on Treasury Management (Revised November 2009) was adopted by this Council on the 3 March 2010, having been approved by Executive on the 10 February 2010. The Code was revised in November 2011, acknowledging the effect the Localism Bill could have on local authority treasury management. This strategy has been prepared in accordance with the revised November 2011 Code.

The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Council of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Council the delegated body is the Audit Committee.

f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Finance Scrutiny Committee.

1.4. **Treasury Management Strategy for 2016/17**

The suggested strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services.

The strategy covers:

Section 1: Introduction
Section 2: Treasury Limits for 2016/17 to 2018/19
Section 3: HRA reform
Section 4: Current Portfolio Position
Section 5: Borrowing Requirement
Section 6: Prudential and Treasury Indicators for 2016/17 to 2018/19
Section 7: Prospects for Interest Rates
Section 8: Borrowing Strategy
Section 9: Annual Investment Strategy
Section 10: MRP Strategy
Section 11: Recommendations

Appendix A: List of Prudential and Treasury Indicators for approval
Appendix B: MRP Strategy
Appendix C: Treasury Management Policy Statement
Appendix D: Treasury Management Scheme of Delegation
Appendix E: The Treasury Management Role of the Section 151 Officer
Appendix F: Economic Background
Appendix G: Prospects for Interest Rates
Appendix H: Glossary of Terms
Appendix I: Treasury Management Implications of HRA Reform report

1.5. **Balanced Budget Requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This,

therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional to capital expenditure; and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. Treasury Limits for 2016/17 to 2018/19

2.1. It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England the Authorised Limit represents the legislative limit specified in the Act.

2.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is acceptable.

2.3. Whilst termed an ‘Affordable Borrowing Limit’, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix A of this report.

3. HRA reform

3.1. The Treasury Management Strategy for 2013/14 was the first to incorporate the split of the debt portfolio following the Housing Revenue Account (HRA) debt settlement of March 2012. Details of how the split was calculated and the corresponding effect on treasury management activities are at Appendix I.

3.2. It is important to note that the treasury position of the Council will continue to be monitored at a Council level, alongside the separate positions for the General Fund (GF) and the HRA. The HRA is also limited in terms of the treasury activity it can undertake, in so much as any temporary borrowing or investing it requires can only be done with the GF. Any long-term borrowing will be through the GF. This ensures that the overall Council position is managed as effectively and efficiently as possible.

3.3. To reflect the fact that the HRA now has its own treasury position, this report will mention, where appropriate, where the HRA treasury strategy may be different to that of the GF. However, where the Council’s strategy is mentioned, this applies to both the GF and the HRA.

4. Current Portfolio Position

4.1. The Council’s forecast treasury portfolio position at 31 March 2016 is shown below:

Table 1		Principal			Ave. rate
		GF £'000	HRA £'000	**Total £'000**	%
Fixed rate funding	PWLB	0	0	**0**	0.00
	Market	185,355	33,895	**219,250**	4.95
	Stock	8,094	0	**8,094**	3.37
		193,449	33,895	**227,344**	4.89
Variable rate funding	PWLB	0	0	**0**	0.00
	Market	224,387	37,578	**261,965**	4.44
		224,387	37,578	**261,965**	4.44
Government debt (HCA/HIF)		14,865	0	**14,865**	0.00
Gross debt		**432,701**	**71,473**	**504,174**	4.51
External Investments		(40,300)	0	**(40,300)**	0.25
Internal balances (GF/HRA)		34,302	(34,302)	**0**	0.00
Net debt		**426,703**	**37,171**	**463,874**	

4.2. The capital financing requirement of the City Council excluding credit arrangements, as at 31 March 2016 is forecast to be c. £924.8m. The difference between this and the actual gross debt of the Council, as shown above, is c. £420.6m, which is the amount of funding that the Council has internally borrowed. This is a reflection of the treasury strategy that the Council has pursued, as internal cash has been utilised to reduce the amount of borrowing required rather than being held as investments. In the current interest rate environment, where the rate of interest on investments is significantly lower than that on borrowing and there are substantial counterparty risks, this has been a prudent approach and has provided value for money for the Council.

4.3. As part of the reform of the HRA, CLG repaid all of the Council's PWLB debt, which had been gradually reduced over recent years by various stock transfers. Subsequently, the debt portfolio consists almost exclusively of market debt, the majority of which are LOBO loans which have long-term maturity rates. Whilst this provides some stability to the Council, as LOBOs are unlikely to be called in the near future due to the current and forecast market environment, it does mean that when seeking to take new debt the Council should seek to diversify the portfolio, not least to ensure a wider range of maturity dates.

5. Borrowing Requirement

5.1. The potential long-term borrowing requirements over the next three years are:

Table 2	2016/17	2017/18	2018/19
	£'000 estimate	**£'000 estimate**	**£'000 estimate**
Planned Capital Expenditure funded by Borrowing	274,583	155,199	98,917
Change in Grants & Contributions	20,621	-15,057	-
Change in Capital Receipts	7,621	-3,523	-
Change in Reserves	37,735	-7,599	-
MRP Provision	-24,126	-26,711	-27,692
Refinancing of maturing debt (GF)	21,689	8,447	40,546
Refinancing of maturing debt (HRA)	311	1,553	7,454
Estimated Borrowing Requirement	338,434	112,309	119,225
Of which:			
Estimated GF new borrowing required (excl HCA/ HIF)	225,123	10,756	31,771
Estimated HRA new borrowing required	311	1,553	7,454
Housing Investment Funding (HIF)	113,000	100,000	80,000
Estimated total new borrowing required	338,434	112,309	119,225

5.2. The borrowing detailed within Table 2 keeps the Council within its previously agreed government debt deal limit.

6. Prudential and Treasury Indicators for 2016/17 to 2018/19

6.1. Prudential and Treasury Indicators (as set out in Appendix A to this report) are relevant for the purposes of setting an integrated treasury management strategy.

6.2. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on the 8 October 2003 by the full Council, and the revised 2009 code was adopted on the 3 March 2010. This strategy has been prepared under the revised code of November 2011, which was adopted in February 2012.

7. Prospects for Interest Rates

7.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives the Capita Asset Services central view:

Capita Asset Services Bank Rate forecast for financial year ends (March)

- 2016: 0.50%
- 2017: 1.00%
- 2018: 1.75%
- 2019: 2.00%

7.2 There is no certainty to these forecasts, and if the continuation of the economic recovery from the recession begins to slow or weaken more than currently expected, it is likely rates will remain lower for longer. Conversely, there is also a chance that the recovery could be much stronger than expected, which may cause the Bank Rate to increase sooner than forecast. A detailed view of the current economic background prepared by Capita is contained within Appendix F to this report.

8. Borrowing Strategy

General Fund

8.1. Whilst there is a need to borrow in the short term, the Council's borrowing strategy needs to utilise the annual provision the Council makes to reduce debt, in the form of MRP. If the Council continued to borrow loans that matured in the long term, as in the past, the MRP would accumulate as there would be no opportunity to use it to repay debt other than at considerable cost.

8.2. In previous years this has not been an issue for the authority, as the Council have had significant borrowing requirements year on year which have allowed the Council to use the MRP to reduce the borrowing required. However, the borrowing requirement may well be expected to fall in the long term and therefore, a prudent strategy is to seek to borrow in the medium term, with maturities to match the estimated MRP that is generated in that period, thus avoiding an accumulation of cash on the balance sheet that would need to be invested (at a net cost and investment risk to the Council).

8.3. The overall aim of the borrowing strategy is to rebalance the portfolio by introducing more medium term debt when there is a borrowing requirement, whilst seeking to continue to utilise the Council's significant level of reserves and provisions by internally borrowing when possible.

HRA

8.4. The current business plan for the HRA suggests that no borrowing will be required.

8.5. However, in the event that some of the current debt is required to be repaid, perhaps through a bank calling one of the LOBO loans, it would be the aim of the HRA to rebalance the portfolio by introducing more medium term debt whilst also seeking to use any reserves or provisions by internally borrowing. Internal cash balances will be utilised before any borrowing is undertaken.

8.6. Should the HRA require temporary borrowing, this will be sought from the General Fund. This is discussed further in Appendix I.

8.7. **Borrowing rates**

The Capita Asset Services forecast for the PWLB Certainty rate is as follows:

Table 3	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Mar 18	Mar 19
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.75%	2.00%
5 yr PWLB rate	2.40%	2.60%	2.70%	2.80%	2.80%	3.30%	3.60%
10 yr PWLB rate	3.00%	3.10%	3.20%	3.30%	3.40%	3.80%	4.10%
25 yr PWLB rate	3.70%	3.80%	3.90%	4.00%	4.10%	4.30%	4.50%
50 yr PWLB rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.20%	4.40%

A more detailed Capita Asset Services forecast is included in Appendix G to this report.

8.8. Consideration will be given to borrowing from the European Investment Bank (EIB), where rates can be forward fixed, if this represents better value for money. The Council has agreed a £100m facility with the EIB which will form part of the Council's future overall borrowing strategy. The EIB's rates for borrowing are generally favourable compared to PWLB, allowing for existing planned future borrowing from PWLB to be replaced by cheaper funding from the EIB. The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Council's overall pooled borrowing.

8.9 In the March 2012 Budget, the Chancellor announced the availability of a PWLB 'certainty rate' for local authorities, which could be accessed upon the submission of data around borrowing plans for individual authorities. The Council submitted their return in April 2015. The certainty rate allows a local authority to borrow from the PWLB at 0.20% below their published rates. This reduction, alongside the flexibility the PWLB provides in terms of loan structures and maturity dates, together
with the lack of availability of market debt options, suggests that should long term
borrowing be required, PWLB borrowing may provide the best value for money.

8.10. The Council's borrowing strategy will give consideration to new borrowing in the following forms:

a) The cheapest borrowing will be internal borrowing by utilising cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at longer term rates which are expected to be higher in future years;

b) PWLB borrowing for periods under 20 years. Rates at the shorter end are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt, and allow the Council to align maturities to MRP;

c) PWLB variable rate loans for up to 10 years;

d) Long term fixed rate market loans, including loans with the European Investment Bank, at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB/EIB and market debt in the debt portfolio;

e) EIB loans, including forward fixing, to take advantage of lower interest rates and allow the Council the facility to draw down in the future when interest rates may have risen;

f) Loans from third parties that are offered at lower than market rates, for example, Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

g) Housing Investment Funding from the DCLG, and Homes and Communities Agency funding, see paragraphs 8.13 for further details.

h) Regional Growth Fund leverage monies from the Greater Manchester Combined Authority, as detailed in paragraph 8.14. This represents interest free money from the GMCA.

8.11 These types of borrowing will need to be evaluated alongside their availability. In particular, there is a very limited availability of traditional market loans, with those available tending to be LOBOs (which means that the lender has future options to increase the interest rate and the local authority has the option to repay if the increase in the rate is unacceptable to them), which are not currently available at competitive rates of interest.

Further to this, following HRA reform the vast majority of the Council's debt portfolio consists of LOBOs, and the authority needs to consider diversifying the loan book to reduce the impact of any volatility that may cause these loans to be called. It should be noted, however, that the Council's current LOBO loans are unlikely to be called in the medium term at current interest rates.

8.12 Homes and Communities Agency Funding

The Homes and Communities Agency (HCA) has made £13m of funding available
to the City Council and this was received in 2015/16. The funding is, in effect, a 'loan' of the HCA's receipts from the disposal of its land and property within Greater Manchester (GM), as agreed in the GM City Deal. The funds can be used to invest in any project which supports GM City Deal objectives. Some of the funds will be passed on to other GM authorities for projects within their areas.

The funding from the HCA is held as an interest free loan, until such time as an investment approval is made. At this point, the approved element of the loan becomes risk-based, with the return to the HCA based on the performance of that investment.

The funds are to be used for projects within Greater Manchester; the location depends on where the receipts originate from, and whether the receipt is due to the sale of residential or commercial property. Proceeds from commercial property will not be borough-specific, whereas proceeds from residential property will be.

The funds received are to be repaid to the HCA in March 2022. No interest will be charged to MCC for the receipt of the funds, however, should an investment made with HCA funds not be recovered, the loss is deducted from the amount due to HCA. Conversely, should any profit be made by an investment these will be added to the amount due to the HCA.

8.13. Housing Investment Funding

The Council has arranged with the Homes and Communities Agency to receive housing investment funding on behalf of Greater Manchester. The funds will be treated as a loan to the Council in a similar manner to HCA funds as detailed in paragraph 8.12. These monies will then be invested in housing related projects with any losses met by Government (up to 20%) or by guarantee from the ten Greater Manchester authorities (including Manchester). £40m has been received in 2015/16 of which £33m is likely to be repaid and reprofiled into future years. Consequently it is anticipated the Council will receive £113m in 2016/17, £100m in 2017/18 and £80m in 2018/19 as shown in Table 2 at paragraph 5.1.

8.14 Regional Growth Fund leverage monies

A report was submitted to Executive on the 3 June 2015 proposing to increase the capital programme by £21.5m to increase the Regional Growth Fund (RGF).
There is a guarantee from the Greater Manchester Combined Authority, and an interest free loan from the Combined Authority to fund an element of the increase and to take the first call on any losses incurred.

The proposal to increase the capital programme was accepted by Council, and the scheme allows the Council to borrow up to £6.5m from the Greater Manchester Combined Authority without interest.

8.15. Sensitivity of the forecast

In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Council officers, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- ***If it were felt that there was a significant risk of a sharp FALL in long and short term rates**,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.
- ***If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast**,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

8.16. External v. internal borrowing

There is currently a difference of around £6m between the Council's general fund gross debt and net debt (i.e. the gross debt after deducting cash balances).

The current borrowing position reflects the historic strong balance sheet of the Council, as highlighted in Section 4. It enables net interest costs to be minimised and reduces credit risk by making temporary use of internal

borrowing (reserves, provisions, positive cash flows, etc). The policy remains to keep cash as low as possible and minimise temporary investments.

The next financial year is again expected to be one of very low Bank Rate. This provides a continuation of the window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

Over the next three years, investment rates are therefore expected to be significantly below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2016/17 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when PWLB longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates with the EIB, whilst rates are favourable.

Against this background caution will be adopted within the 2016/17 treasury operations. The City Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

8.17. Policy on borrowing in advance of need

Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

8.18. Debt rescheduling

It is likely that opportunities to reschedule debt in the 2016/17 financial year will be limited, particularly as the Council no longer holds any PWLB loans. This leaves the possibility of rescheduling our other funding sources, such as market loans, but it should be stressed that the likelihood of any rescheduling remains very remote.

As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual 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 size of the premiums incurred, their short term nature, and the likely cost of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The debt portfolio of the Council following HRA reform consists mainly of LOBOs, and the premia associated with rescheduling these make it unlikely that it will provide a cost effective rescheduling opportunity. This is because the premia will not only relate to the future interest payments associated with the loan, but also because the Council would need to compensate the lender for the buy-back of the interest rate options that the loan has embedded in it.

The Council will continue to monitor the LOBO market and in particular opportunities to reschedule, redeem or effectively alter the profile of existing LOBO debt.

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 strategy outlined in paragraph 8.3 above;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

Any restructuring of LOBOs will only be progressed if it provides value for money for the Council, and reduces the overall treasury risk that the Council faces, for example interest rate risk or credit risk. Members are requested to delegate the authority to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to pursue any restructuring, rescheduling or redemption opportunities available, including if it requires changes to the Treasury Management Strategy. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Consideration will also be given to identify if there is any residual potential left 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 the Executive, as part of the normal revenue budget monitoring.

8.19. Stock Redemption

In the late 1800's the Council issued classes of 3% and 4% stock. The total value of this debt is currently £8.085m and the Council pays total annual interest of £272k to over 200 stockholders. Currently the Council is

experiencing a positive cash flow and this position affords an opportunity to redeem this long standing stock.

The financial benefit from redemption of the stock will be to remove the annual payment of £272k interest. This saving must be compared against the notional lost investment interest on the £8.085m it will cost to redeem the stock. Current yields suggest this notional lost investment income is in the range £20-25k per annum. Despite this offset to the annual interest saving there is still a strong financial case to progress the redemption.

Additionally redemption of the stock will avoid considerable administrative work. There are eight separate exercises each year to raise interest payments, a detailed manual Stock Register must be maintained and this is additionally supported by the operation and updating of a dedicated computer system.

Stockholders are required to be given 12 month's notice of redemption, however the Council will offer to redeem the stock earlier at the holder's request. A component of the stock is irredeemable which means redemption is at the discretion of the stockholder. Subject to confirmation from Legal Services it is intended to make the offer for the irredeemable stock time bound giving the same 12 months notice as required for redemption of the redeemable stock, i.e. the stockholder will be required to advise the Council within this timeframe if they wish to keep their holding.

It is intended to offer redemption of the stock at par for both the redeemable and irredeemable stock. The majority of the stockholding comprises very small amounts and this offer is expected to be attractive to both classes of stockholder as current market prices are lower than par. Stockholders will find it difficult to sell their stock at higher commercial rates, particularly those who hold a small value. It is planned that the redemption will be initiated in 2016.

9. Annual Investment Strategy

General Fund

9.1 Introduction

The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

- the security of capital; and
- the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Council is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

These principles would be important in normal circumstances, but the Icelandic banks crisis, and the financial difficulties faced by UK and

international banks that followed, have placed security of investments at the forefront of Treasury Management investment policy.

9.2 Changes to credit rating methodology

Through much of the financial crisis the main rating agencies (Fitch, Moody's and Standard & Poor's) provided some institutions with a ratings 'uplift' due to implied levels of sovereign support (government backing should an institution fail).

In response to the evolving regulatory regime and the declining probability of government support, the rating agencies are removing these 'uplifts'. The result of this is that some institutions ratings have been downgraded by up to two notches.

The rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the removal of the implied level of sovereign support that were built into ratings throughout the financial crisis. The removal of sovereign support is taking place now that the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

As a result of these rating agency changes, the credit element of Capita's future methodology will focus solely on the Short and Long Term ratings of an institution, and officers believe that the Council should follow the same methodology.

The key change to the regulatory framework in respect of banks is the introduction of the European Union's Banking Recovery and Resolution Directive (BRRD).

In response to the banking crisis some Governments used taxpayer funds to support banks in danger of failing. In future BRRD will require 'bail-in' to be applied in such a scenario. In the UK this will mean that after shareholders' equity, depositors' funds comprising balances over £85k will be used to support a bank at risk. This will increase the risk to the Council of holding unsecured cash deposits with banks and building societies.

9.3 Investment Policy

As previously, the Council will not just utilise ratings as the sole determinant of the quality of an institution. 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'[1] and overlay that information on top of the credit ratings.

[1] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

In light of credit rating changes the Council needed to spread its counterparty risk by identifying more counterparties that can be utilised for investments; therefore the Treasurer introduced in the 2015/16 Treasury Management Strategy a number of measures to broaden the basis of lending:

- Utilise UK banks / building societies and local authorities.
- Utilise non-UK banks / building societies in countries with an AAA rating.
- Diversify the investment portfolio into more secure UK Government and Government-backed investment instruments such as Treasury Bills.
- Utilise Certificates of Deposit and Covered Bonds with high quality counterparties, i.e. those that are AAA rated.
- Utilise Money Market Funds which are Constant Net Asset Value (CNAV) and AAA rated.
- Although the current investment strategy allows investments for up to 364 days, restrict deposits to less than 3 months unless the case can be made for investing for longer (i.e. to match a future commitment) apart from deposits with other Local Authorities or the DMO.

These measures were approved in last year's Strategy, but because of the changes in regulatory and economic environments they have all not yet been pursued.

- Investment in banks and building societies are now exposed to bail-in risk. In response to this change rather than increase investment in banks and building societies as approved in last year's Treasury Management Strategy, in practice lower limits for investment in banks and building societies have been adopted in 2015/16. This is apart from the limit with Barclays bank; Barclays is the Council's main banker and is the investment destination of last resort for the close of daily trading. These revised limits are interim operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2015/16 will be maintained in 2016/17.
- Research into the implications of Treasury bill trading has been completed and custodian and broker options identified. Current Treasury bill yields are in excess of those generated from investments with the UK Treasury's Debt Management Office, whilst the level of risk is similar as Treasury bills are investments in UK Government stock. Treasury bills also are not subject to bail-in risk. It is expected that initial trading in Treasury bills will commence in 2016. Further background detail on Treasury bills is noted in section 9.10 below.
- There are no plans yet to utilise Certificates of Deposit and Covered Bonds with high quality counterparties. Certificates of Deposit are deposits with banks and are therefore captured by bail-in risk. Covered Bonds are not subject to bail-in risk and the bonds are backed by a separate group of loans. Covered Bonds are usually long duration investments. The custodian and broker facilities identified for Treasury bill trading can also be used for trading in Certificates of Deposit and

Covered Bonds. Further background detail on Certificates of Deposit and Covered Bonds bills is noted in sections 9.11 and 9.12 below.

- Money Market Funds will also avoid bail-in risk, however they have not yet been pursued because although the requirements of Constant Net Asset Value (CNAV) and AAA rating might be met, Money Market Funds of U.K. origin might be still be invested abroad in countries which are outside the Council's approved list of counterparties/countries. Further background detail on Money Market Funds is noted in section 9.9 below.

The current strategy means that a significant proportion of the Council's investments are with the Government (via the DMO) or with other Local Authorities. In the financial year 2015/16 to December 2015 an average of c. 75% of the investment portfolio was with the DMO and other Local Authorities. This highlights the relatively low rate of credit risk that the Council takes when investing.

It should be noted that, whilst seeking to broaden the investment base, officers will seek to limit the level of risk taken by the Council. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.

HRA

9.4 In order to maintain efficient, effective and economic treasury management for the Council as a whole, the HRA will only be able to invest with the General Fund. This is discussed further in Appendix I.

9.5 Specified and Non-Specified Investments

Investment instruments identified for use in the financial year are listed below, and are all specified investments. Any proposals to use other non-specified investments will be reported to members for approval.

Specified Investments

All such investments are sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

Further details about some of the below specified investments can be found in later paragraphs within Section 9.

Table 4	**Minimum 'High' Credit Criteria**	**Use**
Term deposits – banks and building societies*	See Para 9.8.	In-house
Term deposits – other Local Authorities	High security. Only one or two local authorities credit-rated	In-house
Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government	UK Government explicit guarantee	In-house

guarantees		
Money Market Funds (MMFs)	AAA_M	In-house
Non-UK Banks/ Building Societies	Domiciled in a country which has a minimum sovereign Long Term rating of AAA	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

* Banks & Building Societies

The Council will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 9.7. If this limit is breached, for example due to significant late receipts, the Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the Council's general bank accounts - including the general bank accounts, the balance will be kept to the maximum investment limit of the institution as detailed in paragraph 9.7, with any breaches reported to the Treasurer.

9.6 Creditworthiness policy

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard & Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties classed as durational bands.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within the Capita Asset Services weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

This Council will not use the approach of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita Asset Services creditworthiness service uses a wider array of information than just

primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

In summary therefore the Council will approach assessment of creditworthiness by using the Capita counterparty list as a starting point, and then applying as an overlay its own counterparty limits and durations.

All credit ratings will be monitored daily and re-assessed weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Council will be advised of information in Credit Default Swap against the iTraxx benchmark[2] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Council will assess investments only against the criteria listed above, and will not seek to evaluate an organisation's ethical policies when making these assessments.

9.7 Investment Limits

As advised by Capita Asset Services, our treasury advisors, the financial investment limits of banks and building societies are linked to their short and long-term ratings (Fitch or equivalent) as follows:

Banks & Building Societies

Long Term	**Amount**
Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Council will only utilise those institutions that have a short term rating of F2 or higher (Fitch or equivalent).

UK Government (includes Debt Management Office)	£200 million
Greater Manchester Combined Authority	£50 million

[2] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

Other Local Authorities £20 million

It may be prudent, depending on circumstances, to temporarily increase the limits shown above, as in the current economic environment, it is increasingly difficult for officers to place funds. If this is the case, officers will seek approval from the City Treasurer for such an increase and approval may be granted at the City Treasurer's discretion. Any increase in the limits will be reported to members as part of the normal treasury management reporting process. It should be noted that any HCA funds invested with other local authorities will form part of the £20m limit detailed above.

9.8 Country Limits

The Council has determined that it will only use approved counterparties from countries that meet the Council's Authority's criteria based on the creditworthiness policy described in paragraph 9.6. The list of countries that qualify using this credit criteria as at 8th January 2016 are shown below:

Australia
Canada
Denmark
Finland
Germany
Netherlands
Singapore
Sweden
Switzerland
USA

Every country on this list is rated AAA by two or more of the three main rating agencies. This list will be added to, or deducted from should ratings change. The Council will only invest outside the UK with institutions of the highest credit rating AAA, who are therefore higher rated and less risky to utilise than the UK.

9.9 Use of Money Market Funds

The proposed changes to credit ratings to remove implied sovereign support could have a significant impact on all bank and building society ratings across the world.
If the changes do see large numbers of rating downgrades, the Council could find the number of counterparties available to it severely limited.

To avoid a situation where the Council cannot invest surplus funds, or is severely limited in its ability to do so, it is proposed that money market funds be included as an alternative specified investment.

Money market funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk. The funds are managed by a fund manager. The objectives of money market funds are to preserve capital, provide daily liquidity and provide a competitive yield. The majority of money market funds invest both inside and outside the UK.

Money market funds are rated through a separate process to bank deposits, which looks at the average maturity of the underlying investments in the fund as well as the credit quality of those investments.

It is proposed that the Council will only use Money Market Funds where the institutions hold the highest AAA credit rating. Furthermore where the Money Market Funds invest outside the UK the countries concerned must be on the list of approved counterparties noted in paragraph 9.8 above.

9.10 Use of Treasury Bills

These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is relatively low, although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

Weekly tenders are held for Treasury bills so the Council could invest funds on a regular basis, based on projected cash flow information. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.
There is a large secondary market for treasury bills so it is possible to trade them in earlier than the maturity date if required; and also purchase them in the secondary market.

It is anticipated however that in the majority of cases the Council will hold to maturity to avoid any potential capital loss from selling before maturity. The Council will only sell the treasury bills early if it can demonstrate value for money in doing so.

9.11 Use of Certificates of Deposit

These are short dated marketable securities issued by financial institutions, and as such counterparty risk is low. The instruments have flexible maturity dates, so it is possible to trade them in early if necessary, however, there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of deposit are given the same priority as fixed deposits if a bank was to default. The Council would only deal with certificates of deposit that are issued by banks which meet the credit criteria.

9.12 Use of Covered Bonds

Covered bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions balance sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Council would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

9.13 Liquidity

Based on cash flow forecasts, the level of cash balances in 2016/17 is estimated to range between £0m and £160m. The higher level can arise where, for instance, large government grants are received or long term borrowing has recently been undertaken.

Giving due consideration to the Council's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the Council will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year.

9.14 Investment Strategy to be followed in-house

Bank rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in the first quarter of 2016/17. Bank Rate forecasts for financial year ends (March) are as follows:

- 2015: 0.50%
- 2016: 0.50%
- 2017: 1.00%
- 2018: 1.75%
- 2019: 2.00%

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

- As for the Eurozone in general, concerns in respect of a major crisis subsided in 2013. In January 2015 the European Central Bank (ECB) launched a €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This policy appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. However, recent downbeat Chinese and Japanese economic news has reiterated concern that the ECB will need to boost its quantitative easing programme to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%. It is suggested that until these targets are reached the use of higher quality counterparties for shorter time periods is continued;

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have continued to be volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism in financial markets. There are also many external influences weighing on the UK The closing weeks of 2015 have seen a small increase in US interest rates, the first for nearly a decade, however UK rates are not predicetd to move until
quarter 2 of 2016 at the earliest. The expected trend in the longer term is for gilt yields and PWLB rates to rise once economic recovery is established. This will be accompanied by rising inflation and consequent increases in Bank Rate and the eventual unwinding of quantitative easing;

- 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.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

For 2016/17 it is suggested that the Council should budget for an investment return of 0.30% on investments placed during the financial year.

For cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

It should be noted that the Council has seen a substantial reduction on the level of interest payable on its call accounts, as the level of liquidity the banks are obliged to commit to on these funds has a significant impact on what they can do with such deposits.

9.15 End of year Investment Report

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

9.16 Policy on the use of external service providers

The Council uses Capita Asset Services 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.

9.17 Scheme of delegation

Please see Appendix D for the responsibilities of member groups and officers in relation to treasury management.

9.18 Role of the Section 151 officer

Please see Appendix E for the definition of the role of the City Treasurer in relation to treasury management.

10. Minimum Revenue Provision (MRP) Strategy

10.1 Please see Appendix B for the Council’s policy for spreading capital expenditure charge to revenue through the annual MRP charge.

11. Recommendations

11.1 Please see the front of the report for the list of recommendations.

Appendix A

List of Prudential and Treasury Indicators for approval

Please note last years approved figures are shown in brackets.

Treasury Management Indicators	2016-17		2017-18		2018-19
	£m		£m		£m
Authorised Limit - external debt					
Borrowing	1,272.5	(1,440.5)	1,245.0	(1,478.5)	1,245.0
other long term liabilities	216.0	(216.0)	216.0	(216.0)	216.0
TOTAL	1,488.5	(1,656.5)	1,461.0	(1,694.5)	1,461.0
Operational Boundary - external debt					
borrowing	1,018.5	(1,159.0)	1,096.2	(1,304.2)	1,187.4
other long term liabilities	216.0	(216.0)	216.0	(216.0)	216.0
TOTAL	1,234.5	(1,375.0)	1,312.2	(1,520.2)	1,403.4
Actual external debt	842.6	(974.8)	954.9	(1,155.7)	1,074.2
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Upper limit for fixed interest rate exposure Net borrowing at fixed rates as a % of total net borrowing	92%	(100%)	100%	(100%)	100%
Upper limit for variable rate exposure Net borrowing at Variable rates as a % of total net borrowing	90%	(95%)	95%	(99%)	100%

Maturity structure of new fixed rate borrowing during 2016-17	Upper Limit		Lower limit	
under 12 months	70%	(60%)	0%	(0%)
12 months and within 24 months	100%	(100%)	0%	(0%)
24 months and within 5 years	90%	(70%)	0%	(0%)
5 years and within 10 years	70%	(60%)	0%	(0%)
10 years and above	70%	(60%)	0%	(0%)
Has the Authority adopted the CIPFA Treasury Management Code?				Yes

The status of the indicators will be included in Treasury Management reporting during 20016/17. They will also be included in the Council’s Global Revenue Budget monitoring.

Appendix B

Minimum Revenue Provision Strategy

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2011/12 and will assess its MRP for 2016/17 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP).

DCLG Regulations require full Council to approve an MRP Statement, in advance of each year. If the Council wishes to amend its policy during the year this would need to be approved by full Council. A variety of options are available to councils to replace the previous Regulations, so long as there is a prudent provision. The options are:

- ***Option 1:*** Regulatory Method – can only be applied to capital expenditure incurred prior to April 2008 or Supported Capital Expenditure.
- ***Option 2:*** CFR Method – a provision equal to 4% of the non-housing CFR at the end of the preceding financial year.
- ***Option 3:*** Asset Life Method – MRP is calculated based on the life of the asset, on either an equal instalment or an annuity basis.
- ***Option 4:*** Depreciation Method – MRP is calculated in accordance with the depreciation accounting required for the asset.

The Council is recommended to approve the following MRP Statement:

It is the Council's policy that MRP relating to an asset will start to be incurred in the year after the capital expenditure on the asset is incurred or, in the case of new assets, in the year following the asset coming into use, in accordance with DCLG's guidance.

The Council recognises that there are different categories of capital expenditure, for which it will incur MRP as follows:

- For non HRA Supported Capital Expenditure: MRP policy will continue to be charged at a rate of 4% in accordance with option 1 of the guidance (the regulatory method).

- For non HRA unsupported capital expenditure incurred the MRP policy will be:

    - Asset Life Method – MRP will be based on a straight line basis or annuity method so linking the MRP to the future flow of benefits from the asset, dependant on the nature of the capital expenditure, in accordance with option 3 of the guidance.

- If the expenditure is capital by virtue of a Ministerial direction, has been capitalised under a Capitalisation Directive, or does not create a council asset, MRP will be provided in accordance with option 3 of the guidance with asset lives calculated as per the table below:

Expenditure type	**Maximum period over which MRP to be made**
Expenditure capitalised by virtue of a direction under s16 (2) (b).	20 years.
Regulation 25(1) (a). Expenditure on computer programs.	Same period as for computer hardware.
Regulation 25(1) (b). Loans and grants towards capital expenditure by third parties.	The estimated life of the assets in relation to which the third party expenditure is incurred.
Regulation 25(1) (c). Repayment of grants and loans for capital expenditure.	25 years or the period of the loan if longer.
Regulation 25(1) (d). Acquisition of share or loan capital.	20 years, or the estimated life of the asset acquired.
Regulation 25(1) (e). Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
Regulation 25(1) (ea). Expenditure on assets for use by others.	The estimated life of the assets.
Regulation 25(1) (f). Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

- For PFI service concessions and some lessee interests: Following the move to International Accounting Standards arrangements under private finance initiatives (PFIs) service concessions and some lessee interests (including embedded leases) are accounted for on the Council’s balance sheet. Where this occurs, a part of the contract charge or rent payable will be taken to reduce the balance sheet liability rather than being charged as revenue expenditure. The MRP element of these schemes will be the amount of contract charge or rental payment charged against the balance sheet liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease or PFI scheme.

In some exceptional cases, the Council will deviate from the policy laid out above provided such exceptions remain prudent. Any exceptions are listed below:

- Where capital expenditure is incurred through providing loans to organisations, and where those loans are indemnified or have financial guarantees protecting against loss, no MRP will be charged in relation to the capital expenditure. Similarly, loans given by the Council where any losses incurred on the investment will impact solely on a third party, such as those provided under the City Deal arrangement with the HCA, will not require an MRP charge.

Appendix C

Treasury Management Policy Statement

1. This organisation 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.

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.

The Council will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Council's service objectives.

Appendix D

Treasury management scheme of delegation

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Responsible body – Audit Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body with responsibility for scrutiny - Finance and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) City Treasurer

- delivery of the function

Appendix E

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Appendix F

Economic Background as at December 2015

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3.

The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.3%.

The Bank of England Monetary Policy Committee (MPC) has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February.

The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1% in the second half of 2016. Indeed, the increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013.

Nevertheless, despite average weekly earnings ticking up to 3.0% y/y in the three months ending in September, this is unlikely to provide ammunition for the MPC to take action to raise Bank Rate in the near future as labour productivity growth has meant that net labour unit costs appear to be rising by about only 1% y/y. Having said that, at the start of October, data came out that indicated annual labour cost growth had jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There is, therefore, considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge quantitative easing is already in place. There are, therefore, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in

Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget..

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) before dipping again in Q3 to 2.1%

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Federal Reserve (Fed) may start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts.

Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October and November figures were stunningly strong and underpinned the first increase (0.25%) in the Fed's funding rate for almost a decade.

Eurozone. The European Central Bank (ECB) fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016, and then on to March 2017 (although no change to the original quantum of QE has as yet been announced).

This policy appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in Q1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in Q2 and +0.3% (+1.6% y/y) in Q3. However, the recent downbeat Chinese and Japanese news has reiterated the concern that the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands.

The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.7% after a short burst of strong growth of 1.0% during Q1. Growth in Q3 was -0.8% so Japan is now back into recession for the fourth time in five years. It has been hit hard by the downturn in China during 2015. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure.

There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors' strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the

publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Prospects for Interest Rates

Appendix G

The data below shows a variety of forecasts published by a number of institutions. They include those Capita and Capital Economics (an independent forecasting consultancy). The forecasts within this strategy statement have been drawn from these diverse sources and officers 'own views

Capita Asset Services' Interest Rate Capita Asset Services' Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate													
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	n/a	n/a	n/a	n/a	n/a
5yr PWLB Rate													
Capita Asset Services	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	n/a	n/a	n/a	n/a	n/a
10yr PWLB Rate													
Capita Asset Services	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.05%	3.05%	3.05%	3.30%	3.30%	3.55%	3.55%	3.80%	n/a	n/a	n/a	n/a	n/a
25yr PWLB Rate													
Capita Asset Services	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	n/a	n/a	n/a	n/a	n/a
50yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	n/a	n/a	n/a	n/a	n/a

Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Appendix H

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID (London Interbank Bid Rate) – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR

is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more then one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

Appendix I

HRA reform

As discussed in Section 3 of the report, the reform of the HRA finance system has consequences for the treasury management of the Council. As part of the reform, the HRA's debt portfolio needs to be separately identifiable to that of the General Fund, and the HRA will hold some autonomy over the management of its debt portfolio. However, in order to ensure that the treasury management function of the Council remains effective and provides value for money, and given that the Section 151 officer for both the General Fund and the HRA is the Treasurer, the HRA's treasury portfolio must be run in the context of the overall Council portfolio.

This appendix seeks to explain how the debt portfolio of the Council has been split between the General Fund and the HRA, and how the HRA treasury position will be managed going forward.

The Portfolio Split

One of the principles behind the reform of HRA finance was to provide some level of treasury autonomy for the HRA, separating its debt from the Council's so that its treasury position could be managed separately. To achieve this, the debt portfolio was to be split at the point that the debt settlement was made.

On the 28 March 2012, the Council received c. £294m which was to be used to reduce the debt held by the Council. The table below shows the Council's treasury portfolio before and after the settlement:

	Pre reform		Post reform
	£'000		*£'000*
PWLB	199,966		0
Market	549,640		480,215
Stock	8,159		8,159
Gross Debt	**757,765**		**488,374**
Deposits	-17,954		-42,839
Net Debt	**739,811**		**445,535**

At this point, the debt was to be split according to the relative capital financing requirements (CFRs) of both the General Fund and the HRA. The cash remainder of the settlement could not be used to redeem further market debt so, to ensure that the HRA CFR fell by the full level of the settlement, a notional transaction took place. An amount of debt equivalent to the cash remainder was transferred from the HRA to the General Fund, alongside the cash. This had a neutral effect on the General Fund's net debt.

The table below shows the CFRs before and after the debt settlement, with the HRA CFR falling by the settlement:

CFRs	Pre reform		Post reform	% of total
	£'000		*£'000*	
General Fund	675,454		675,454	84.47%
HRA	418,463		124,187	15.53%
Total	**1,093,917**		**799,641**	**100.00%**
		Of which financed:	*488,374*	
		Of which unfinanced:	*311,267*	

As can be seen from the tables below, the debt was to split in a ratio of 84.47:15.53 between the General Fund and the HRA, including the unfinanced CFR element. This is the level of internal borrowing undertaken in lieu of external borrowing, through the use of cash balances to fund expenditure rather than external borrowing. It was decided, for administrative reasons, that all of the Council's remaining stock debt should be held by the General Fund, which increased the relative level of unfinanced CFR held by the HRA.

The final split of the debt portfolio is shown in the table below:

	General Fund	HRA	Total
	£'000	*£'000*	*£'000*
Market	405,636	74,579	480,215
% of total market	*84.47%*	*15.53%*	
Stock	8,159	0	8,159
% of stock	*100.00%*	*0.00%*	
Total Loans	**413,795**	**74,579**	**488,374**
% of total loans	*84.73%*	*15.27%*	
Unfinanced CFR	261,659	49,608	311,267
% of unfinanced CFR	*84.06%*	*15.94%*	
Total CFR	**675,454**	**124,187**	**799,641**
% of total CFR	*84.47%*	*15.53%*	

Future HRA borrowing

Following the split of the portfolio, the HRA can make borrowing decisions according to the needs of their business plan, provided those decisions are aligned with their treasury strategy and are agreed by the Section 151 officer. The amounts and maturity periods of any future loans will be determined by the HRA, in conjunction with the Treasury Management team and the City Treasurer. Any future borrowing made by the Council will be for either the General Fund or the HRA and not for the Council in general.

Use of Temporary Cash Balances and Temporary Borrowing

Although the HRA's treasury position is now independent of the General Fund, both are managed in the name of the Council as a whole. As such, the day to day treasury position of the Council, whilst having regard to the impact on the HRA and the General Fund, will be run on a Council basis – this simplifies the risk management of the treasury position, and should help to ensure that the treasury function is providing value for money.

To achieve this, the General Fund will deposit and temporarily borrow externally, but the HRA will only be able to deposit with the General Fund and, should it be required, will only be able to access temporary borrowing through the General Fund. In order to ensure that this is fair, interest rates will be applied to any such internal transfers, as summarised below:

- If the General Fund has temporary investments, HRA investments with the General Fund will earn – ***average portfolio temporary investment rate.***
- If the General Fund does not have temporary investments, HRA investments with the General Fund will earn – ***7-day LIBID***
- If the General Fund has temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***average portfolio temporary borrowing rate***
- If the General fund does not have temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***7-day LIBOR***

The market rates to be used (7-day LIBID and LIBOR) are the benchmark rates used by the Council for investments and temporary borrowing.

Future Reporting

The intention is to continue to report to Members the overall treasury position of the Council, including both the General Fund and the HRA. Separate reports will be provided on the General Fund and the HRA, when required.