REPORT TO:	**GENERAL PURPOSES AND AUDIT COMMITTEE** **28 January 2015**
AGENDA ITEM:	**9**
SUBJECT:	**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2014/15 Mid-Year Review**
LEAD OFFICER:	**Richard Simpson,** **Director of Finance and Assets**
CABINET MEMBER:	**Councillor Simon Hall,** **Cabinet Member for Finance & Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management. This report details the Council's Treasury Management activities during the first half of 2014/15 and the Council's compliance with the updated 2011 Prudential Code for Capital Finance.

FINANCIAL SUMMARY: This report details the Treasury Management activities in the first half of 2014/15 and demonstrates the Council's compliance with the updated 2011 Prudential Code.

FORWARD PLAN KEY DECISION REFERENCE NO.:

For general release

1. **RECOMMENDATIONS**

   1. The Committee are asked to note the contents of this report and to:

   (a) Approve the revision of the Council's list of approved Specified and Non-Specified Investments as set out in paragraph 3.3.4 and as detailed in **Appendix B** of this report.

   (b) Endorse the continued implementation of the Council's Treasury Strategy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2014/15 by the Director of Finance and Assets;

2. EXECUTIVE SUMMARY

1. This report accords with the CIPFA Code of Practice for Treasury Management and best practice: The Code recommends that members are informed of Treasury activities at least twice a year. The report:

- reviews the Council's treasury management activities for the first six months of 2014/15.

- details those areas of activity that formed the basis of the Treasury Strategy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2014/15 received by Full Council on **24 February 2014 (Item 6)** and

- demonstrates the Council's compliance with the updated 2011 Prudential Code for Capital Finance in the first half of the year and sets out revised Prudential Indicators for 2014/15.

3. BACKGROUND

1. The Council has adopted a Treasury Management Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated in the Council's Financial Regulations.

1. The Treasury Management Policy Statement sets out the arrangement for reporting to Members prior to the commencement of each financial year (a statutory requirement) on treasury strategy for the year ahead, to receive a mid-year review of treasury activities and to receive a review of the previous year's activities.

2. The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the authority with minimum risk and to achieve this by minimising the Council's exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council's finances.

3. The Council's treasury management activities are regulated by statute, the updated 2011 Code and official guidance.

4. This report presents a mid-year review of 2014/15's activities based on the following:
   - The Economy and Interest Rates
   - Lending;
   - Performance
   - Borrowing;
   - Compliance with Prudential Indicators;
   - Repayment of Debt and Debt Rescheduling; and

5. A glossary of the terms and abbreviations used in this report is attached at **Appendix F.**

2. **The Economy and Interest Rates**

1. After strong UK Gross Domestic Product (GDP) quarterly growth in 2013 and growth of 0.7%, 0.9% and an estimated 0.7% for the first 3 quarters in 2014, it appears likely that strong growth will continue through 2014 and 2015. Forward surveys for the services and construction sectors and the manufacturing sectors are very encouraging with business investment also strongly recovering. This overall strong growth has resulted in unemployment falling faster through the initial threshold of 7%, set by the Bank of England's (BOE) Monetary Policy Committee (MPC) in August 2013, as being the level at which increases in Bank Rates would be considered. The MPC has now broadened its policy on forward guidance by looking at a wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly this was being used up.

2. The UK's return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next 5 years, as announced in the 2013 Autumn Statement, and by an additional £24bn as announced in the March 2014 Budget. The March 2014 Budget also forecast a return to a significant surplus of £5bn in 2018/19.

3. A sharp fall in Consumer Price Index (CPI) inflation, reaching 1.2% in September 2014, the lowest rate since 2009, provided further encouraging news for the UK economy. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. Overall, markets are expecting that the MPC will be cautious in raising the Bank Rate as it will want to protect heavily indebted consumers from too early an increase at a time when inflationary pressures are also weak

4. The UK's official Bank Rate remains at 0.50% for a record 66 consecutive months, the lowest that it has ever been since the inception of the Bank of England. The level of asset purchases (quantitative easing) continues to be the £375bn agreed in July 2012.

5. In the US, two topics dominated the financial news namely:

a) The Federal Reserve continued with its monthly $10bn reductions in its asset purchase scheme. By September 2014, asset purchases had fallen from $85bn to $15bn and were scheduled to be stopped by 29 October 2014. First quarter US GDP figures were depressed by exceptionally bad winter weather, but growth rebound very strongly in the second quarter.

b) The US faces similar debt problems to those of the UK, but reasonable growth, cuts in government expenditure and tax rises have served to halve the annual government deficit although the weak labour force participation rate remains a matter of key concern for the Federal Reserve.

3.2.6 Concern in financial markets in the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth.

3.2.7 The Eurozone is facing an increased threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. This represents an average for all Eurozone countries and includes some countries with negative rates of interest. Accordingly, the European Central Bank (ECB) reduced its benchmark rate to 0.05% and its deposit rate to -0.2% and began a programme of purchases of corporate debt. However, the ECB has not yet embarked on full quantitative easing (purchase of sovereign debt).

3.2.8 There remain huge uncertainties in economic forecasts for the next half of this financial year due to:

- The rise in geopolitical concerns principally over Ukraine and the Middle East plus fears around Ebola.
- An accumulation of dismal growth news in most of the ten largest economies of the world.
- The growing risk of deflation in the Eurozone and the potential for a significant increase in negative reaction to austerity measures in Eurozone countries, especially in those countries with high levels of unemployment.

3.2.9 Interest rate forecasts as provided by the Council's independent treasury advisers, Capita Asset Services, are detailed below.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

These projections show that market commentators expect the first increase in the Bank Rate to be in June 2015 to 0.75%. This means that the Authority should not expect an upturn in the interest earned on cash balances in the current financial year.

3. **Lending**

3.3.1 The Council's investment policy is governed by the Department for Communities and Local Government Office (CLG) guidance which has been implemented in the Annual Investment Strategy approved by Full Council on **24 February 2014 (Item 6).** As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List. The rating criteria for approved counterparties was as follows:

Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating
	Approved Organisations meeting credit ratings All Non-UK Banks that meet the FITCH ratings set out above All UK Building Societies that meet the FITCH ratings set out above UK Banks that meet the FITCH ratings set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds Debt Management Office (DMO)

The Council's authorised list of counterparties as at 30 September 2014 is detailed in **Appendix A.** This list and the limits applicable to counterparties were approved by Full Council on **24 February 2014 (Item 6)**. It had been drawn up to provide maximum security for the Council's funds. Note that although there are three rating agencies, of these Moody's and Standard and Poors focus on the US markets while FITCH concentrates on Europe and is thus the preferred choice for use here. The CIPFA guidelines require that local authorities factor in the lowest of the three potential ratings, providing an overall check. For Money Market Funds, with a more trans-Atlantic spread of exposure, consideration of all three ratings is critical.

3.3.2 The domestic and international regulatory frameworks, created to ensure that financial institutions are more resistant to potential future crises, are continuing to develop. The current credit rating methodology which evolved through the last financial crisis was devised to provide the Council with a risk assessment that allows the Treasury team to select suitable counterparties. Going forward, the regulatory regime could see the implied sovereign support levels being removed by rating agencies in early 2015 which in turn may affect the other ratings of an institution. The sovereign support rating is an assessment of the extent to which a government would, in the event of a financial crisis step in to bail out a bank. This would be particularly significant if the UK were to be down-graded. The actual timing of the rating changes is still subject to discussion but in anticipation of this move, should this occur, the Council's Treasury Section will revert to using the same UK and international institutions as currently used, provided that they are recommended for investment purposes by the Council's Treasury Advisers, Capita Asset Services. A report on the new credit ratings to be adopted will then be prepared to allow the Treasury Strategy to be amended.

3.3.3 The principle of ensuring capital security and then of securing the best rate of return underpins all treasury investment decisions. The market that exists to support local authorities understands this and has evolved to develop products to match these requirements. Without in any way compromising the commitment to these principles the treasury team has begun a process of engagement with investment advisors to explore the merits and associated risks of alternatives to plain time- and call-deposits that match their security characteristics. There is a growing concern, triggered by a succession of high profile banking scandals, that the reducing pool of quality counter-parties, such as banks, is increasing the level of risk for the Authority. These risks are not simply the risk that principal sums invested might be lost but also reputational risks to the authority. One possible response to this might be to look closely at other high-grade deposit takers, to increase diversification of investments and thereby reduce the overall concentration of risk of default. As a consequence of this, the Council has recently put into place a Custodian agreement offered at a discount by Bank of New York Mellon – the Custodian used by the Council's Pension Fund. This will give the Treasury team an opportunity to enhance investment yield by utilising those specified and unspecified investments, as approved by Full Council on **24 February 2014 (Item 6)**, which require custodian arrangements to be in place.

3.3.4 The investments, both specified and non-specified, that officers are currently permitted to undertake in-house are summarised below.

1. Specified Investments – All such investments shall consist of investments under one year as follows:
   - Debt Management Agency Deposits Facility (DMADF)
   - Term Deposits with UK Government or with UK local authorities.
   - Term deposits with credit rated deposit takers (banks and building societies).
   - Certificates of Deposits (CDs).
   - AAA rated Money Market Funds.
   - Bonds issued by multinational development banks.
   - Enhanced AAA rated Money Market Funds.
   - UK Government Gilts.
   - UK Government Treasury Bills.

2. Non-Specified Investments – Local Authorities are permitted to invest for periods in excess of one year. All such investments shall consist of investments as follows:
   - Term Deposits with UK local authorities.
   - Term deposits with credit rated deposit takers (banks and building societies).

- Callable deposits with credit rated deposit takers (banks and building societies).
- Forward deposits with credit rated deposit takers (banks and building societies).
- Certificates of Deposits (CDs).
- Bonds issued by multinational development banks.
- Enhanced AAA rated Money Market Funds.
- UK Government Gilts.
- Property Funds.

The Council will seek to further diversify its investment portfolio and increase yield by widening counterparty exposure through the addition of other types of available instruments onto the Specified and Non-Specified Investments list. Members are therefore requested to approve the addition of the following:

- Floating Rate Notes (FRNs) issued by institutions on the Council's authorised lending list.
- Investment grade Corporate Bonds issued by Corporate Institutions.
- AAA rated Covered Bonds.

This policy will limit the treasury team to using only these capital instruments that are issued by financial institutions who are existing deposit takers or corporate bodies of equivalent financial standing. The effect of this will be to reduce counterparty risk exposure. In the immediate short-term there will be no increase in returns, but the treasury team will be better placed to exploit market opportunities in the longer term. Details of these Specified and Non-Specified Investments are at **Appendix B.**

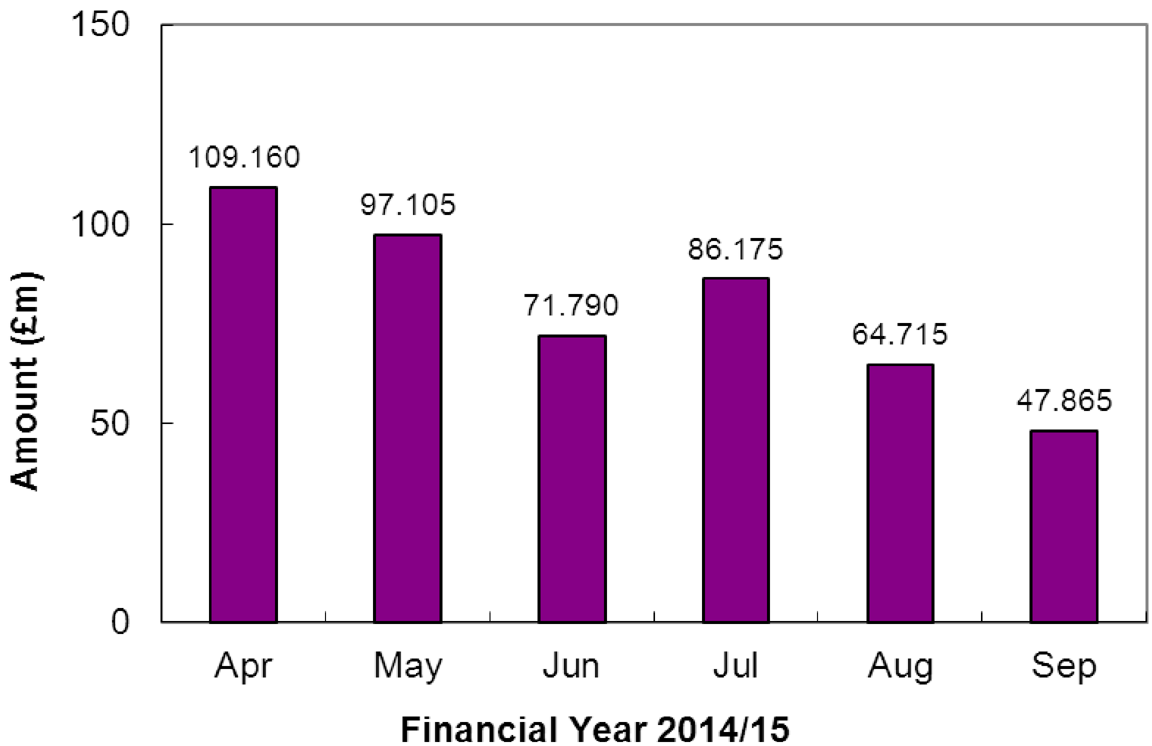
3.3.5 The financial year 2014/15 continues the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

3.3.6 Investment activity in the first half of 2014/15 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of £159.398m being maintained in temporary investments during the year. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.3.7 Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to secure the best rate of return.

3.3.8 Investment of the Council's cash balances is governed by the guidance on Local Government Investments which has been issued by the CLG. This guidance requires certain investment policy parameters to be set within the annual Treasury Strategy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Strategy approved by Council. Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council's cash flow requirements.

3.3.9 In aggregate for the first half of 2014/15, deposits totalling £476.810m were invested, yielding on average an investment rate return of 0.46% compared to the benchmark rate of 0.34% for the year (see paragraph 3.7.2). During the year the Council maintained an average monthly balance of £159.398m and the investments outstanding at 30 September 2014 were £154.540m. These were invested as follows: UK banks £40.0m, Non-UK banks £95.0m, other local authorities £15.0m and £4.540mm with AAA rated Money Market Funds



4. **Borro**

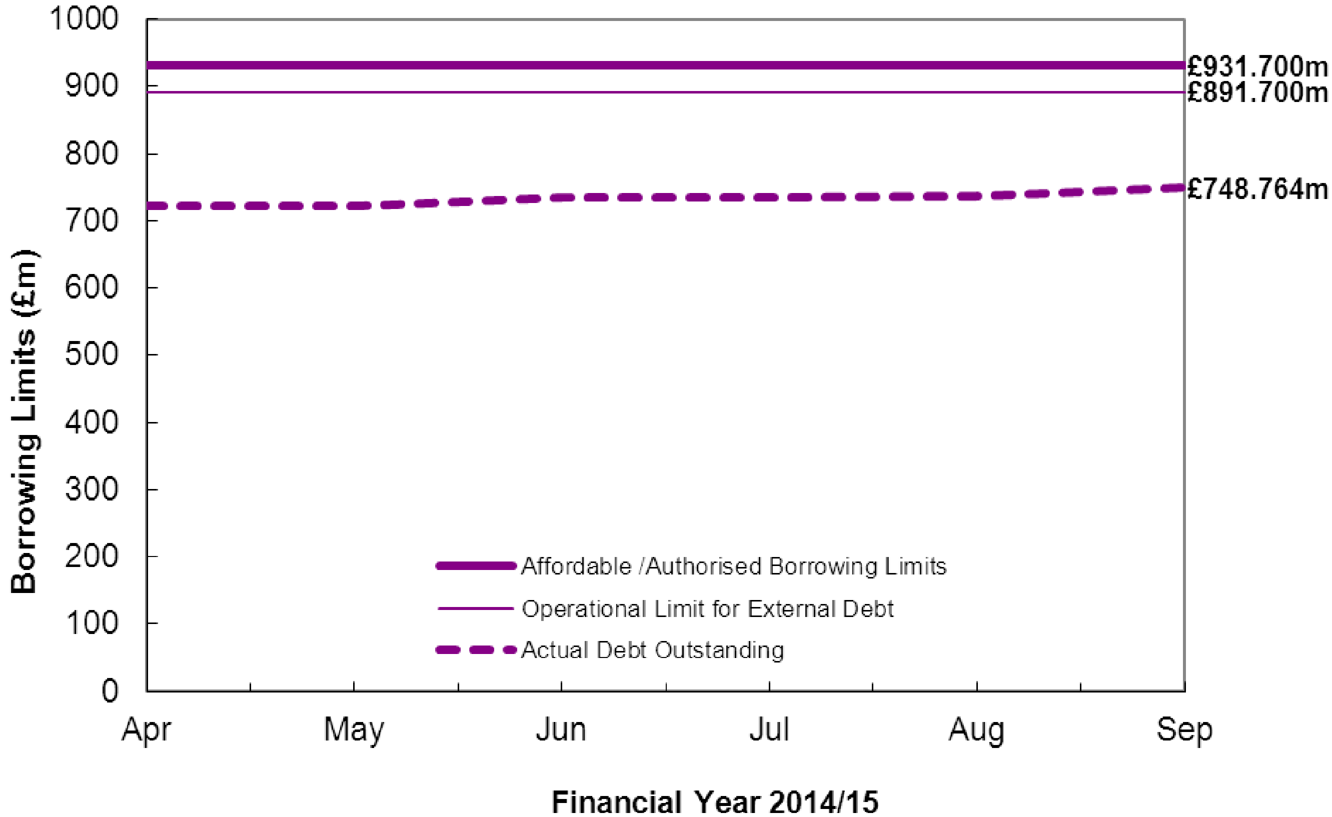
1. The Council set borrowing limits that were approved by Full Council on **24 February 2014 (Item 6)** for the year 2014/15 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which require the Council to determine and keep under review how much it can afford to borrow.

   The limits were:

Operational Limit for External Debt	£891.7m
Affordable Borrowing Limit	£931.7m
Authorised Borrowing Limit	£931.7m

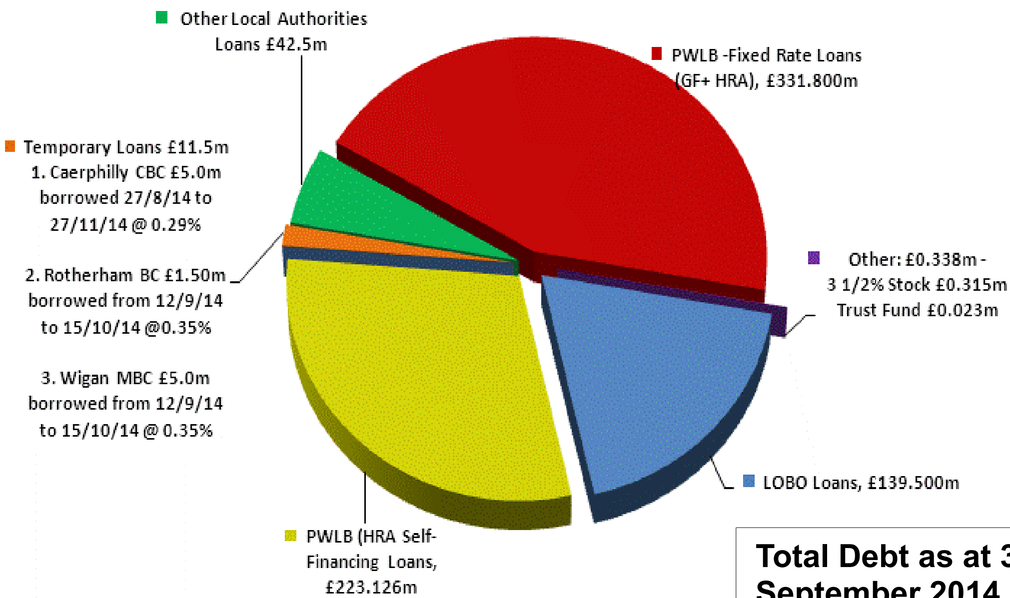
2. The chart below shows the actual debt in the first half of 2014/15 in comparison to the borrowing limits applicable at the time.

Actual Debt in 2014/15 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



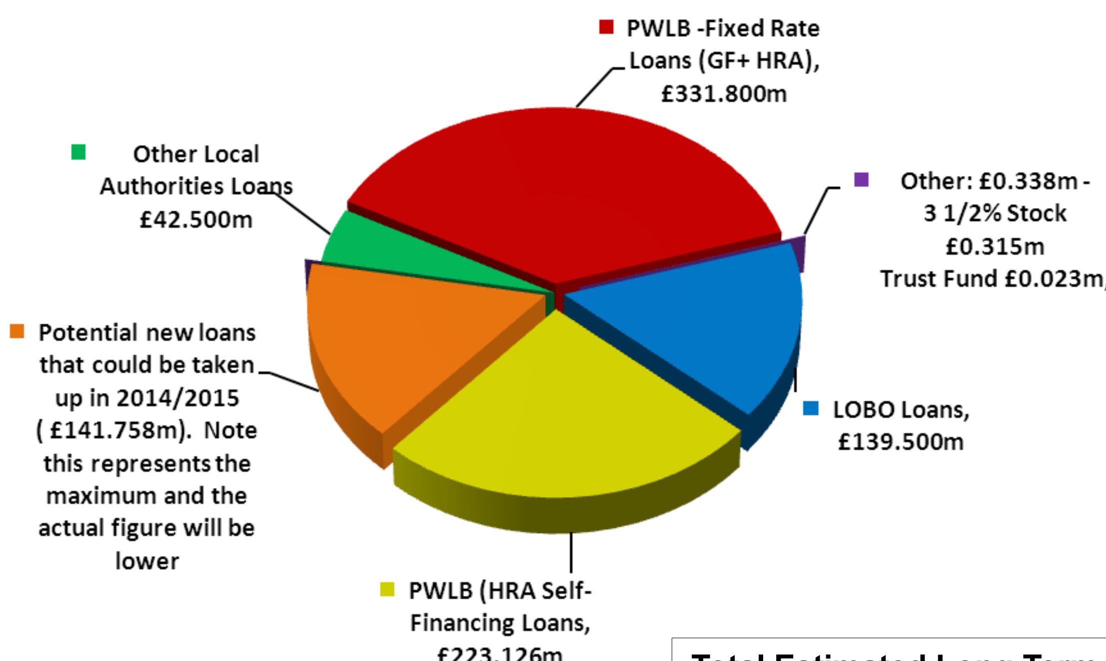
3. The Authorised Borrowing Limit which sets the maximum amount that the Council can borrow for capital and revenue purposes was not exceeded. The Council's overall borrowing as at 30 September 2014 stood at £748.764m of which £11.50m were in temporary loans borrowed for cash-flow purposes. There was therefore considerable headroom to spare between this level of debt and the Authorised Borrowing Limit.

4. The Council’s long term debt at 30 September 2014 and the estimated debt at 31 March 2015 are detailed graphically as follows:



Total Debt as at 30 September 2014 - £748.764m

Estimated Long Term Debt as at 31 March 2015



Total Estimated Long Term Debt as at 31 March 2015 - £879.022m

5. The borrowing requirement for the financial year 2014/15 is estimated to be £162.0m. Of this, £56.0m relates to 2013/14's borrowing requirement which had not been taken up in that year because there were sufficient cash holdings at the year end. The treasury strategy is, through systemic slippage in the delivery of the capital programme and through the use of existing cash balances, to limit the need for further borrowing, and thus to reduce the cost of debt to the Council. As at 30 September 2014, £20.0m of the £162.0m borrowing requirement had been taken up leaving an outstanding requirement of approximately £142.0m – see paragraph 3.4.7 and the pie-chart above at paragraph 3.4.4.

6. The Government's 2012 budget introduced a 20 basis points discount on loans from the PWLB under the prudential borrowing regime for those local authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This special rate was termed the 'certainty rate'. This Council applied for this rate to finance all of its prudential borrowing plus to refinance maturing long-term debt for the next three financial years. This application has been accepted and therefore for the purposes mentioned, the Council will now be able to source future long-term funding from the PWLB at 20 basis points less than the prevailing PWLB rates.

7. With some local authorities imposing restrictions on counterparties to lend to and in order for these authorities to obtain a reasonable return, the market has recently become more active in longer term lending between local authorities. Interest rates on these deals are being priced at below PWLB certainty rates to attract bids. In the first half of the financial year, the Council took up three new long term loans from other local authorities at rates below then PWLB's certainty rates. The first was for £5.0m from Cornwall Council over 4.5 years at a rate of 2.0% - the PWLB certainty rate for that period was 2.60%. The second loan was for £10.0m from London Borough of Bromley over 3 years at 1.50% - the comparable PWLB certainty rate was 2.18%. The third loan was for £5.0m from London Borough of Merton over 2 years at 1.09% - the comparable PWLB certainty rate on the day was 1.72%. This now reduces the outstanding borrowing requirement for 2014/15 to approximately £142m. It should be noted though, that this sum represents an upper limit and the expectation is that management of internal cash balances will mean that this level of borrowing will not be needed.

8. In September 2013 the Council was successful in bidding for £20m of funding for energy efficiency and carbon reduction schemes within its capital programme. The agreement was re-negotiated in June 2014 to allow for the funding to be drawn down in two tranches. The first tranche was for up to £6m to be drawn down before 31 December 2014 over 9 years at an interest rate of 1.80% with the balance of £14m to be taken from 1 August 2015 to 31 July 2016 at an interest rate of 2.50%. Although outside of the time-frame for this 6 month review period, at 31 December 2014, £3.575m from the first tranche has been drawn down. The loans are to be advanced from the European Investment Bank (EIB) through Amber LEEF Green 2 LLP. The PWLB's certainty interest rate on comparable maturity loans as at 2 June 2014 was 3.39%. This funding will ensure that the Council achieves substantial

savings on interest repayments over the next 9 years on borrowings undertaken for energy efficiency and carbon reduction schemes.

9. In 2013 the EIB expressed an interest in setting up a separate credit facility to fund capital schemes within the Council's Education Capital Strategy. This would relate to the financing of capital expenditure incurred by the Borough's schools and academies. The loans being made available would be in the region of £100m to be advanced over the next few years with interest rates being quoted at below PWLB certainty rates. The EIB has now completed its due diligence processes and the loan facility has been approved. Indicative savings over PWLB certainty rate loans are around £0.580m per annum over the entire £100m take up. Over a 20 year loan period, this equates to a saving of £0.580m per annum over 20 years when compared to PWLB funding.

10. When taking up the remainder of this year's borrowing requirement (£142.0m), the Council's Treasury Section will examine all the options available and will compare these against both the certainty rates offered by the PWLB and EIB rates to ensure that the most advantageous rates possible are secured on long-term funding. Consideration will also be given to the use of internal balances to fund at least a part of the requirement if this proves economically more beneficial. Borrowing undertaken will be taken to fit into the Council's existing debt maturity profile to ensure an even distribution of maturities in future years. **Appendix C** displays the movements in the PWLB interest rates for the 1-year, 5-year, 10-year, 25-year and 50-year loan periods during the first half of 2014/15.

11. The Council's average external debt level as well as the interest rate payable on this debt has consistently remained below the average of all London Boroughs. This has been independently verified by Capita Asset Services and is detailed below.

<u>Interest rate payable on long term external debt</u>

	Financial Year ending 31 March							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
	%	%	%	%	%	%	%	%
Croydon	4.64	4.77	4.60	4.42	4.32	4.36	4.06	3.97
London Boroughs (Average)	5.66	5.90	5.82	5.65	5.11	4.39	4.55	4.49

The above data is attached as a chart in **Appendix D**.

5. Compliance with Prudential Indicators

1. The Prudential Code for Capital Finance in Local Authorities was updated in 2011. It serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code required the continual monitoring of the Prudential Indicators set by the Council.

2. The purpose of the Prudential regime is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3. The Prudential Indicators set by this Authority for 2014/15 and revised indicators for the year are detailed in **Appendix E.**

6. **Repayment of Debt and Debt Rescheduling**

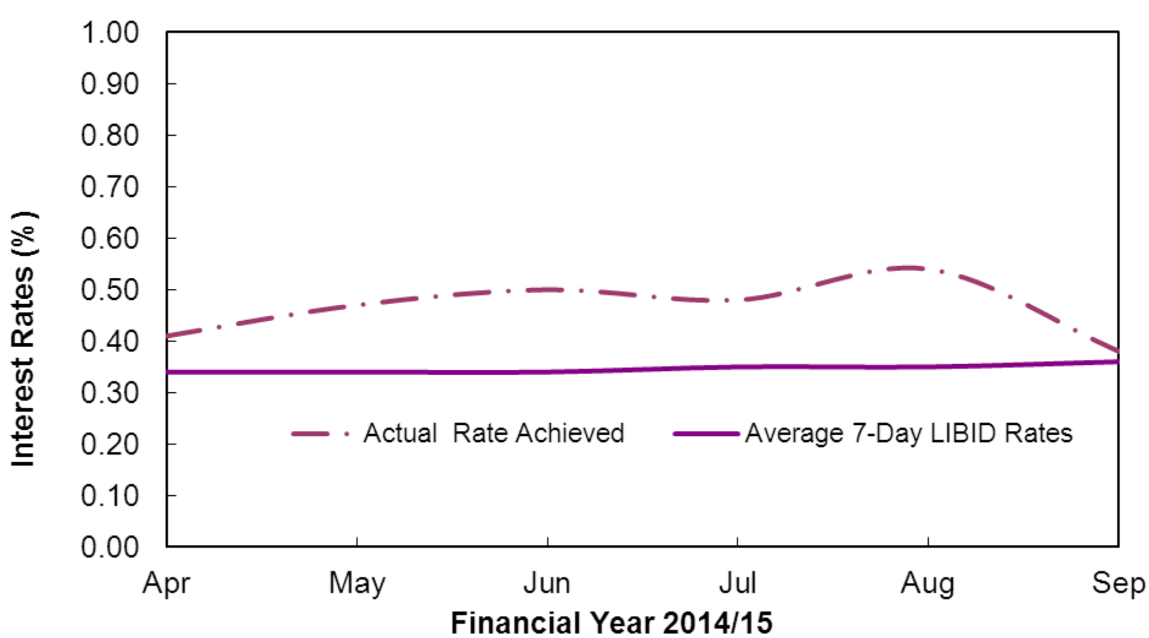
1. With PWLB rates low in the first half of 2014/15 and with high premiums being attached to the premature repayment of existing PWLB debt, opportunities for debt restructuring were minimal and therefore none was undertaken.

2. Debt repayment / restructuring will only be done following advice from Capita Asset Services, who provide independent treasury management services, and only if it was proved beneficial for the Council. The Council's debt profile is structured so that loans mature over a spread of future dates. This takes advantage of the best rates offered at the time and ensures that refinancing risks are controlled. There is the risk however that when the Authority needs to take out a replacement loan, the market rates could have moved against us.

7. **Performance Targets**

1. The gross investment income earned by the Council for the financial year 2014/15 is estimated to be £1.971m.

2. The average 7-day London Interbank Bid (LIBID) rate is a benchmark against which investment returns can be measured. The Council's actual investment return for the first half of 2014/15 was 0.46% compared to the benchmark average 7-day LIBID rate of 0.34%. Liquidity was maintained by investing in AAA rated Money Market funds at rates around 0.40% with some investments pitched towards the 3, 6 and 12 month periods at rates over 0.5% to produce returns in excess to the benchmark 7-day LIBID rate.



3. The above graph shows the rate of investment returns achieved each month compared to the benchmark average 7-day LIBID rate for the month.

4. **CONSULTATION**

1.Full consultation in respect of the contents of this report has taken place with the Council's Treasury Management Advisers, Capita Asset Services in the preparation of this report.

5. FINANCIAL CONSIDERATIONS

5.1 Revenue and Capital consequences of this report are dealt within this report.

There are no additional financial considerations other than those identified in this report.

5.2 **The effect of the decision**

Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Director of Finance & Assets.

5.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

5.4 **Options**

These are fully dealt with in this report

5.5 **Savings/ future efficiencies**

This report sets out the treasury activities in the first half of 2014/15 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Strategy Statement, Minimum Revenue Provision Policy Statement and the Annual Investment Strategy 2014/15 report presented to Members on **24 February 2014 (Item 6)**.
Approved by: Richard Simpson, Director of Finance & Assets.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Solicitor to the Council advises that there are no additional legal implications arising from this report.
Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct HR implications arising from this report.
Approved by: Heather Daley, Director of Human Resources.

8. CUSTOMER IMPACT

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Disability Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2014/15 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

BACKGROUND DOCUMENTS:
CIPFA's Prudential Code for Capital Finance in Local Authorities Fully Revised Second Edition 2009 and updated 2011 edition.
CIPFA's Code of Practice for Treasury Management in the Public Services and Cross Sectoral Guidance Notes – Fully Revised Second Edition 2009 and updated 2011 edition.
CLG's Guidance on Local Government Investments March 2004.

CONTACT OFFICER:
Derick Fernandes, Treasury Manager Ext. 62526

Appendix A

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 30/09/14 (Criteria as per FITCH)

LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	1	AAA
Morgan Stanley Money Market Fund	15,000,000	AAA				
Aberdeen Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Group Plc **(Part Nationalised) (UK)**	25,000,000	A	F1	bbb	1	AA+
Lloyds Bank Group Plc **(Part Nationalised) (UK)**	20,000,000	A	F1	a-	1	AA+
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
HSBC Bank PLC **(UK)**	10,000,000	AA-	F1+	a+	1	AA+
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Standard Chartered PLC **(UK)**	10,000,000	AA-	F1+	aa-	1	AA+
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	1	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

LOCAL GOVERNMENT INVESTMENTS (ENGLAND) SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months. The Council currently does not invest in this type of investment. It is recommended, however, that these can now be used and held until maturity, after consulting and taking advice from the treasury management consultants.

- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.

- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts. If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

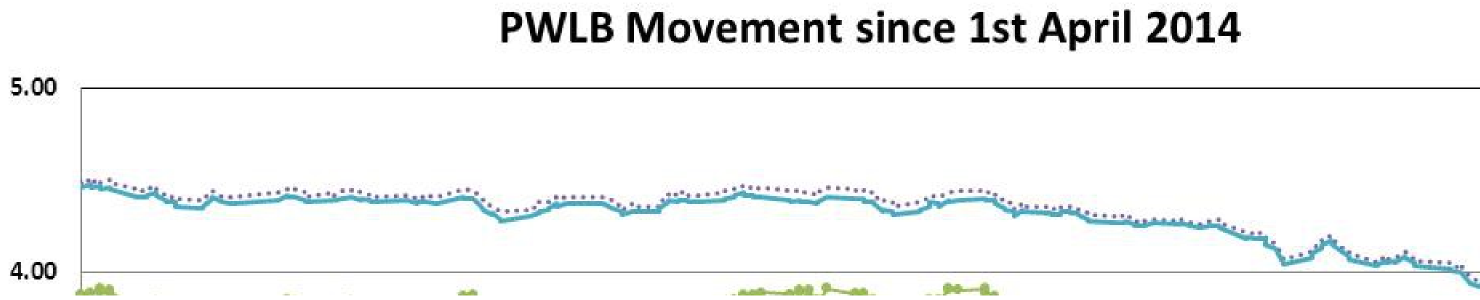
- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

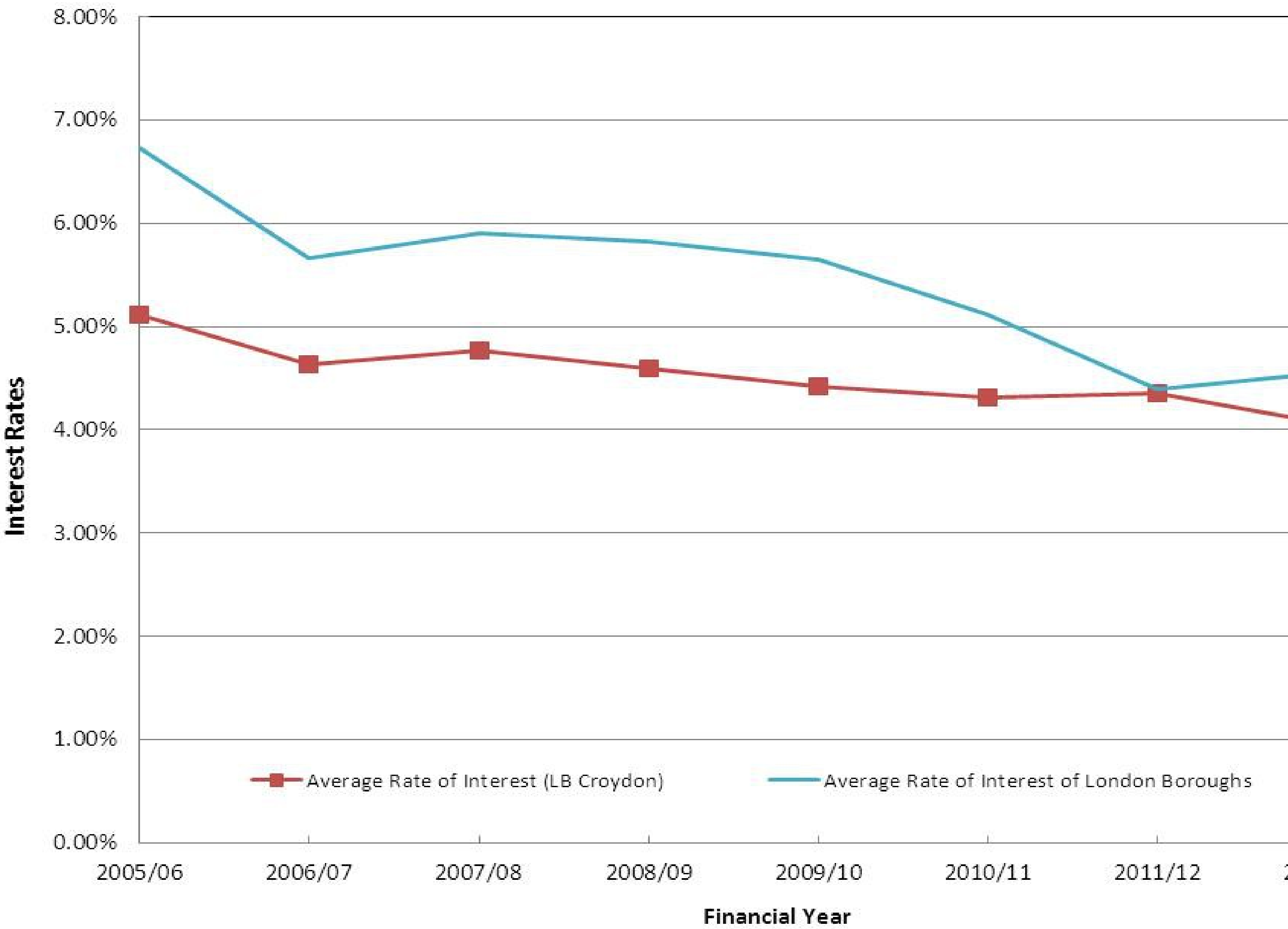
- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment. The Council currently does not invest in this type of funds. It is recommended, however, that these funds can now be considered, after consulting and taking advice from the treasury management consultants.

- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone, Volkswagen etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters. It is recommended that the use of this type of investment can now be considered, after consulting and taking advice from the treasury management consultants.

- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets. It is recommended that the use of this investment can now be considered, after consulting and taking advice from the treasury management consultants.





Appendix E

Appendix C

PRUDENTIAL INDICATORS FOR 2014/15

		2014/15	2014/15	Notes
	PRUDENTIAL INDICATORS	**Indicators** **£'000**	**Revised Indicators £'000**	
1 1. 1 1.1	**Prudential Indicators for Capital Expenditure** Capital Expenditure General Fund HRA	 179,187 40,151	 179,187 40,151	
	Total	219,338	219,338	1
1.2	In year Capital Financing Requirement General Fund (gross of MRP costs). HRA	 74,808 12,430	 104,927 12,430	
	Total	87,238	117,357	2

1.3	Capital Financing Requirement as at 31 March 2014 – **balance sheet figures** General Fund (net of MRP costs). HRA (includes the £223.126m borrowed for the HRA Self Financing settlement sum paid to CLG on 28 March 2012).	 565,000 333,905	 565,000 333,905	
	Total	898,905	898,905	3
2 2.1	**<u>Prudential Indicators for Affordability</u>** Ratio of financing costs to net revenue stream General Fund HRA	 10.0% 16.50%	 10.0% 16.50%	 4 5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	 £10.00	 £10.00	 6
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum).	0	0	

Appendix E

		2014/15	2014/15	Notes
	PRUDENTIAL INDICATORS	**Indicators** **£'000**	**Revised Indicators** **£'000**	
3 1. **3** 3.1	**<u>Prudential Indicators for External Debt</u>** External Debt and Borrowing Requirement Long Term Debt brought forward 1 April Long Term Debt carried forward 31 March (includes the £223.126m in loans taken up to repay CLG for the HRA Self Financing settlement sum)	 819,964 891,751	 717.264 879,022	
	Additional Borrowing	71,787	161,758	7
3.2	Operational boundary for external debt (excludes revenue borrowing) - Borrowing - Other long term liabilities	 891,751 0	 879,022 0	
	Total Operational limit (excludes revenue borrowing)	891,751	879,022	

	Add margin for cashflow contingency	40,000	40,000	8
3.3	Affordable Borrowing Limit (includes revenue borrowing)	931,751	919,022	
	Authorised limit for external debt (includes revenue borrowing) - Borrowing - Other long term liabilities	 931,751 0	 919,022 0	
3.4	Authorised Borrowing Limit	931,751	919,022	
4	**<u>Prudential Indicators for Treasury Management</u>**			
4.1	2. **4** Borrowing limits - upper limit for fixed interest rate exposure expressed as:-			
	Net principal re fixed rate borrowing / investments	931,751	919,022	9
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	20%	9
4.3	Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	30%	30%	9

Appendix E

Notes:

1. The General Fund (GF) and HRA capital expenditure estimated outturn positions take into account slippage from 2013/14.

2. Long term funding of £104.927m has been estimated to be used to finance GF capital expenditure in the year.

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose.

4. This reflects the impact on the GF of the Council's external debt. The GF's net revenue stream consists of the amount to be met from government grants and local taxpayers.

5. This reflects the impact on the HRA of the HRA's portion of external debt. The HRA's net revenue stream consists of net rental income received.

6. This represents the extra annual levy on a Band D tax bill arising from the take up of GF unsupported borrowing in the year.

7. The estimated long term debt outstanding at 31/3/2015 takes into account the borrowing requirement for 2014/15 of £162.0m (see 3.4.5).

8. The cashflow contingency assumes a worst case scenario for example in the event of

the unexpected late receipt of major income such as Council Tax, Housing Benefit subsidy or other government grants. The £40m represents the maximum in short term borrowing that is affordable and which could be undertaken to ease cashflow difficulties in such instances.

9. These Prudential limits are set to provide maximum flexibility for debt management.

Appendix F

GLOSSARY OF TERMS USED IN THE TREASURY MID-YEAR REVIEW 2014/15 REPORT

Affordable Borrowing Limit and Authorised limit for external debit	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unexpected events. It reflects a level of borrowing which, while not desirable, is affordable in the short term. This limit reflects the temporary nature of the borrowing.
Borrowing for Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the Government will give revenue support and specific grants. Additional borrowing the Council may wish to undertake, but for which there will be no financial contribution through the grant system.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the Council has formally adopted.
Capital Financing Requirement (CFR)	The authority's underlying need to borrow to finance capital expenditure.
Consumer Price Index (CPI)	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents depreciation and the like.
FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan with no penalty.
London Interbank Bid Rate	The interest rate at which major banks in London are

(LIBID)	willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.

Net Revenue Stream (NRS)	The NRS for the General Fund is the “Amount to be met from Government Grant and Council Tax contributions”, as shown in the consolidated revenue account. This represents the budget requirement for the Council. The NRS for the Housing Revenue Account is the amount to be met from net rent income as shown in the HRA accounts.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.
Public Works Loan Board (PWLB)	Part of the Government’s Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.