APPENDIX 3

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

14 NOVEMBER 2012

REPORT OF THE SECTION 151 OFFICER

HALF-YEAR TREASURY MANAGEMENT REPORT 2012/13

1. Purpose of the Report

1.1 The purpose of the report is to:-

- comply with the requirement of the Chartered Institute of Public Finance and Accountancy 'Treasury Management in the Public Services: Code of Practice' (the Code) to report as part of a mid year review and overview of treasury activities;
- report on the projected Treasury Management and Prudential Indicators for 2012/13;
- report on the proposed changes to the Treasury Management Policy Statement 2012/13 and seek Council's approval.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1.1 The Treasury Management Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the corporate objectives can be delivered.

3. Background

3.1 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity.

3.2 Statutory Instrument (SI) 3239 (W319) 2003, as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

3.3 The Council formally adopted the Code in April 2004 (and subsequently also adopted the changes to the Code in the 2011 revised edition) and works within the regulatory requirements which limit the level of risk associated with its treasury management activities. Its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.4 A primary requirement of the Code is the formulation and the agreement by the Council of a Treasury Management Policy Statement which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the Treasury Management Policy Statement 2012/13 on 22 February 2012. Treasury management in this context is defined 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.*"

3.5 This report covers the following areas:

- The Council's treasury position for the period 1 April to 30 September 2012
- Borrowing and Debt Strategy 2012/13
- Borrowing Outturn for the period 1 April to 30 September 2012
- Investment Strategy 2012/13
- Investment Outturn for the period 1 April to 30 September 2012
- Treasury Risk Management
- Review of the Treasury Management Policy Statement 2012/13
- Treasury Management and Prudential Indicators 2012/13

4. Current Situation

4.1.1 The treasury position for 1 April to 30 September 2012:

		Principal As at 01/04/12 £m	Average Rate %	Principal As at 30/09/12 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.66	4.70	77.66	4.70
	Market	1.00	8.28	1.00	8.28
Variable rate long term funding	PWLB*	-	-	-	-
	Market (LOBO)	19.25	4.65	19.25	4.65
Total Long Term Borrowing**		**97.91**	**4.73**	**97.91**	**4.73**
Other Long Term Liabilities		22.25		21.45	
Other Short Term Liabilities		1.37		1.37	
Total Other liabilities(details in section 4.1.3**)**		**23.62**		**22.82**	
Short Term Borrowing (Fixed rate)		-	-	-	-
TOTAL DEBT		**121.53**		**120.73**	
Fixed rate investments		26.40	0.66	24.60	0.26
Variable rate investments		3.00	0.56	2.80	0.56
TOTAL INVESTMENTS***		**29.40**	**0.65**	**27.40**	**0.29**

* Public Works Loan Board (PWLB)

** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more. It includes £1m Market Loan due to be repaid in December 2012 and PWLB debt of £16k with less than a year to maturity at 01/04/12

*** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 2 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

4.1.2 Details of the debt maturity on the £97.91m long term borrowing outstanding as at 30 September 2012 are detailed in **Appendix A**. The £19.25m showing as maturing in 2054, relates to Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2013) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty.

4.1.3 The reduction in other liabilities from £23.62m to £22.82m is mainly due to the repayment of £0.5m Invest to Save monies to the Welsh Government. The £22.82m at 30 September 2012 includes £20.42m for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg) and £1m invested on behalf of Bridgend Football club to provide alternative facilities which is held in an Escrow account (money held in trust pending the fulfilment of conditions in a contract).

4.1.4 It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

4.1.5 The Council's Treasury Management Advisors are currently Sterling Consultancy Services (SCS) and the services provided to the Council include:-

- A review of treasury management procedures and practices;
- On-going debt management advice including advice on the timing of new borrowing and the restructuring of debt;
- Investment advice including advice on the credit ratings of counterparties;
- Economic and interest rate forecasting.

The contract expired on the 31 August 2012 and a tender exercise was conducted to award a new contract and SCS have been awarded a new one year contract from 1 September 2012, with the option of an annual extension to a maximum of four years. On 19 October 2012 SCS were acquired by Arlingclose, however all charges and points of contact for the service will remain unchanged.

4.1.6 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Policy Statement, the Financial Procedure Rules (FPR's) have been amended and approved to reflect the role of Audit Committee.

4.2 Borrowing and Debt Strategy for 2012/13

4.2.1 The Expectation for Interest Rates

The interest rate views, incorporated in the Council's Treasury Management Policy Statement for 2012/13, were based upon officers' views supported by a selection of City forecasts provided by Sterling, our Treasury Management Advisors.

This view was seeing the Bank Rate remaining at 0.5% for the first part of 2012, and although rising gradually thereafter, remaining below "normal" levels for the remainder of 2012/13. The Eurozone sovereign debt crisis remains a major driver of market sentiment and with the UK seen a safe haven, gilt yields and hence PWLB rates have fallen markedly this year. Assuming that there is a resolution to the situation, long-term rates are likely to increase to more normal levels in 2012/13.

4.2.2 The Adopted Borrowing and Debt Strategy 2012/13

The agreed strategy approved by Council based on the above forecast was that due to the growing uncertainty over interest rates, the risks associated with treasury activity were increased. As a result, the Council would take a cautious approach to its treasury strategy.

The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks forecast. Longer term fixed rates will be considered if borrowing levels remain relatively low.

The Council assumed long term borrowing rates of 5.30% in the Treasury Policy Statement for 2012/13.

4.3 Borrowing Outturn for 1 April to 30 September 2012

4.3.1 The Bank Rate started the financial year at 0.50% and remained at that level from 1 April to 30 September 2012 and the Bank of England's Monetary Policy Committee (MPC) kept rates on hold at 0.50% at their monthly meeting on the 6 September 2012 for the 42nd consecutive month. It is forecast that it will remain at that level for the remainder of the 2012/13 financial year before slowly starting to rise.

4.3.2 As shown in section 4.2.1 it was forecast in the Treasury Management Policy Statement (January 2012) that long-term PWLB rates were likely to steadily rise during 2012/13, however, as there has not been a resolution to the Eurozone sovereign debt crisis the PWLB rates have not increased as expected as shown in example rates for fixed rate PWLB maturity loans:

Loan Period	PWLB Rate when TMPS was set 6 January 2012	PWLB Rate as at 1 April 2012	PWLB Rate as at 30 September 2012
20 years	3.91%	4.15%	3.72%
30 years	4.14%	4.37%	4.13%
40 years	4.18%	4.39%	4.21%
50 years	4.14%	4.35%	4.15%

4.3.3 No long or short term borrowing has been taken during the period 1 April to 30 September 2012.

4.4 Investment Strategy 2012/13

4.4.1 The purpose of the Annual Investment Strategy incorporated in the Council's Treasury Management Policy Statement 2012/13 is to set out the policies for giving priority to the security (protecting the capital sum from loss) and liquidity (keeping the money readily available for expenditure when needed) of the Council's investments. The Strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments. The Council has regard to the Welsh Government's Guidance on Local Government Investments 2010 and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code") 2011 Edition.

4.4.2 The Annual Investment Strategy incorporated in the Council's Treasury Management Policy Statement 2012/13 states which investments the Council may use for the prudent management of its cash balances during the financial year under the heads of specified and non-specified investments.

4.4.3 The Council uses credit ratings published by Fitch Ratings Ltd, Standard & Poor's and Moody's Investors Service to establish the credit quality of counterparties and investment schemes. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the selection of suitable counterparties includes other factors, for example whether the counterparty has any explicit or implicit government support. This has been endorsed by the revised edition of the CIPFA TM Code and the Welsh Government's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

4.4.4 A half year review of the Annual Investment Strategy will be undertaken and any changes will be reported to Council.

4.5 Investment Outturn for 1 April to 30 September 2012

4.5.1 On a day to day basis the Council potentially has surplus cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in instant access business reserve accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy.

4.5.2 The Council also uses the UK Debt Management Office (DMO - Executive Agency of UK Government) for very short term deposits. The interest rates offered by this facility are usually lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments particularly during a time when security is more important than yield. Other investments are made with UK local authorities and UK registered banks and building societies.

4.5.3 During the period 1 April to 30 September 2012, the bank rate remained at 0.50%. Whilst some existing investments initially provided some protection from lower rates, the Council's investment strategy was weighted towards security and in light of events with the Eurozone crisis and the resultant effect on independently assessed credit ratings, the basis underlying which financial institutions are selected for investment was reviewed. As a result, deposits were placed for shorter periods with the DMO, other local authorities and with the Council's bankers (in an instant access account). This caused a reduction in the level of investment income earned, but protected the principal sum invested.

4.5.4 As shown in section 4.1.1, the balance on investments at 30 September 2012 was £27.40m. Favourable cash flows have provided surplus funds for investment and of these funds £2.80m was held in an instant access account with the Council's bankers, £20.60m was held in fixed deposits maturing within one month and £4m held in fixed deposits maturing before the end of November 2012. Included in this figure is £1m invested on behalf of Bridgend Football club to provide alternative facilities which is held in an Escrow account (money held in trust pending the fulfilment of conditions in a contract).

4.6 Treasury Risk Management

4.6.1 The Council's overall treasury risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice Treasury Management in the Public Services and the Welsh Government's Guidance on Local Government Investments. The Council formally adopted the Code in April 2004 (and the changes to the Code in the 2011 revised edition) and the regulatory requirements which limit the level of risk associated with its treasury management activities.

4.6.2 The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing and Maturity risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

4.6.3 The Council's primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short term investments with the UK Government and highly rated UK registered banks and building societies as detailed above in section 4.5. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

4.6.4 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.

4.7 Review of the Treasury Management Policy Statement 2012/13

4.7.1 Cipfa's Code of Practice for Treasury Management requires all local authorities to conduct a mid year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any major changes to the main parts of the Treasury Management Policy Statement (TMPS) 2012/13, however, it would be beneficial for the Council to make some minor revisions to the Investment Strategy included within this Statement (section 3.7 of the Treasury Management Strategy – current extract shown in **Appendix C**) to enable increased flexibility in an ever changing financial market and increase the investment opportunities available to the Council whilst still maintaining security. Some minor revisions have also been made to the Treasury Management Roles of Officers within Financial Services (Schedule D of the TMPS 2012/13 - current extract shown in **Appendix E**) and the Authorised Signatory List (Schedule E of the TMPS 2012/13 - current extract shown in **Appendix G**).

4.7.2 The main proposed changes to the Investment Strategy 2012/13 are detailed below:

- U.K. registered Banks and Building Societies holding the approved long term credit ratings for instant access and one month deposits - the limit to be increased from £2m to £3m
- U.K. Central Government (DMO) will have no counterparty limit

An extract of the revised Investment Strategy 2012/13 incorporating all the proposed changes are highlighted and shown in **Appendix D.**

4.7.3 The changes to the Treasury Management Roles of Officers within Financial Services and the Authorised Signatory List have been made to reflect the changes in posts as a result of the Finance restructure and an extract of the revised sections incorporating all the proposed changes are highlighted in **Appendices F and H.**

4.8 Treasury Management and Prudential Indicators 2012/13

4.8.1 The revised Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management Indicators. However, the

Council has decided to report on all indicators so the Prudential Indicators are also included within this report. **Appendix B** details the estimate for 2012/13 set out in the Council's Treasury Management Policy Statement and also the projected indicators for 2012/13.

5. Effect upon Policy Framework and Procedure Rules

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Policy Statement 2012/13 approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 **It is recommended that**:

- Council approve the changes to the Treasury Policy Statement 2012/13 as highlighted in the report and Appendices D,F and H;
- Council note the Authority's treasury management activities for the first half of 2012/13;
- Council note the projected Treasury Management and Prudential Indicators for 2012/13 ;

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17 October 2012

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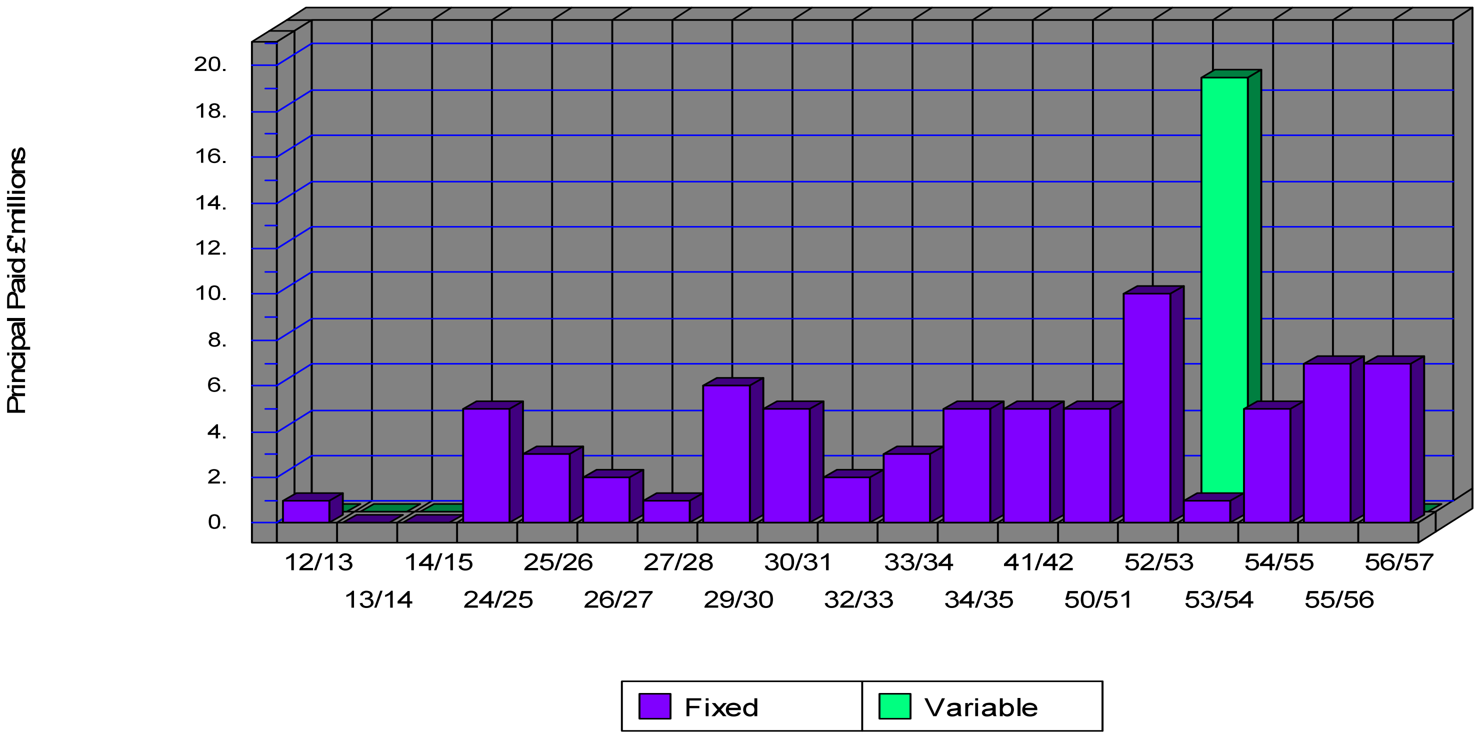
Background documents:
Treasury Management Policy Statement 2012/13

APPENDIX A
Long Term Debt Outstanding – Principal Due to be paid

MATURITY ANALYSIS - 2012 to 2057



APPENDIX B

1 TREASURY MANAGEMENT INDICATORS 2012/13

1.1.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management.

The Council needs to set the upper limits to its exposure to the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.		Treasury Policy Statement 2012/13 £m	Projection @ 31/03/2013 £m
	Total Projected Principal Outstanding on Borrowing	104.90	**104.90**
	Total Projected Principal Outstanding on Investments	12.00	**12.00**
	Net Principal Outstanding	92.90	**92.90**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	125.00	**76.65**
2.	**Upper Limit on variable interest rates (net principal) exposure**	40.00	**16.25**

The Section 151 Officer will manage interest rate exposures between these limits in 2012/13.

1.1.2 A further indicator for Treasury Management is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No	Maturity structure of fixed rate borrowing during 2012/13	Upper limit	lower limit	Projection 2012/13
3.	Under 12 months	50%	0%	**26%**
	12 months and within 24 months	25%	0%	**0%**
	24 months and within 5 years	50%	0%	**0%**
	5 years and within 10 years	60%	0%	**0%**
	10 years and above	100%	40%	**74%**

1.1.3 The **Upper Limit for Total Principal Sums invested for more than 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Policy Statement 2012/13 (Limit) £m	Projection 2012/13 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	**0**

1.1.4 A new Treasury Management indicator has been introduced from 2012/13. The upper limit on net debt indicator is intended to highlight where the Council is borrowing in advance of need. Since net debt does not change when loans are borrowed and the proceeds re-invested, it is not yet clear how this indicator will work. CIPFA has not produced guidance on its use, so following advice from the Council's Treasury Management advisors a limit has been set equal to the forecast Capital Financing Requirement (CFR) until more detailed guidance is produced. This will match the prudential indicator that net debt should not exceed the CFR as shown in section 2.2.1.

No.		Treasury Policy Statement 2012/13 £'000	2012/13 Projection £'000
5.	Upper Limit on net debt compared to gross debt	175,447	**170,521**

2 PRUDENTIAL INDICATORS 2012/13

The Prudential Indicators are required to be set and approved by Council in accordance with the Prudential Code. Council is also required to formally adopt CIPFA's Treasury Management Code.

2.1 Prudential Indicators for Prudence

2.1.1 The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	Estimate Treasury Policy Statement 2012/13 £'000	Projection 2012/13 £'000
1	**Estimates of Capital Expenditure**		
	Non – HRA	46,955	40,582
	Total Capital Expenditure	**46,955**	**40,582**
	Financed by :-		
	Capital Grants and Contributions	23,756	**22,985**
	Capital Receipts	4,606	**2,832**
	Revenue	9	**113**
	Net Financing Need for Year	**18,584**	**14,652**

The capital expenditure figures have changed from the Treasury Policy Statement 2012/13 as the capital programme approved by Council on 22 February 2012 has been amended to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2012/13.

2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to borrow for capital purposes and forms the basis of the charge to the Council Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent - the Council has deemed this to be set at 4% of the opening Capital Financing Requirement after adjustments. The MRP requirement for the PFI Scheme, Finance Leases and Innovation Centre will be equivalent to the write down of the liability for the year and is met from existing budgets.

In addition to this, for all unsupported borrowing exercised under the Prudential Code (used to fund the purchase of assets for directorates) the MRP policy is based on the Asset Life Method. The Voluntary Revenue Provision (VRP) will be at equal annual instalments over the life of the asset which is again met from existing revenue budgets. The first charge will be delayed until the asset is operational.

No.	Prudential indicators For Prudence	Est. Treasury Policy Statement 2012/13 £'000	Projection 2012/13 £'000
2	**Capital Financing Requirement (CFR)**		
	Opening CFR (1 April 2012) excluding PFI	141,520	**140,431**
	Opening PFI CFR	20,627	**20,627**
	Opening Finance Lease CFR	248	**248**
	Opening Innovation Centre	871	**871**
	Total Opening CFR	**163,266**	**162,177**
	Movement in CFR excluding PFI & other liabilities	12,770	**8,933**
	Movement in PFI CFR	(410)	(410)
	Movement in Finance Lease CFR	(153)	(153)
	Movement in Innovation Centre CFR	(26)	(26)
	Total Movement in CFR	**12,181**	**8,344**
	Closing CFR (31 March 2012)	**175,447**	**170,521**
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	18,584	**14,652**
	Minimum and Voluntary Revenue Provisions*	(6,403)	**(6,308)**
	Total Movement	**12,181**	**8,344**

*Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases and the Innovation Centre.

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2.1.3 The Council's long term borrowing at the 30 September 2012 was £97.91m as detailed in section 4.1.1 the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Net Debt** position (Borrowing and Long Term Liabilities net of Investments) is shown below:

No.	Prudential indicators For Prudence Net Debt	Estimate Treasury Policy Statement 2012/13 £'000 Est.	Projection 2012/13 £'000
3	External Borrowing	104,898	**104,898**
	Long Term Liabilities (including PFI)	21,157	21,157
	Total Debt	**126,055**	**126,055**
	External Investments (including instant access deposits)	12,000	12,000
	Total Net Debt	**114,055**	**114,055**

2.2 Limits to Borrowing Activity

2.2.1 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, net borrowing will only be for a capital purpose. The Council needs to ensure that the Net Debt does not, except in the short term, exceed the Capital Financing Requirement for 2012/13. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Policy Statement 2012/13 £'000	Projection 2012/13 £'000
4	**Net Debt & the CFR**		
	Total Net External Borrowing	114,055	**114,055**
	Closing CFR (31 March)	**175,447**	**170,521**

2.2.2 A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below:-

- The Authorised Limit for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

- The Operational Boundary for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the year. It is based on the probable external debt during the course of the year.

No.	Prudential indicators For Prudence	Treasury Policy Statement 2012/13 £m	Projection 31/03/13 2012/13 £m
5	**Authorised limit for external debt -**		
	Borrowing	140	
	Other long term liabilities	30	
	Total	**170**	
6	**Operational Boundary**		
	Borrowing	110	
	Other long term liabilities	24	
	Total	**134**	
	Borrowing		**105**
	Other long term liabilities		**21**
	Total		**126**

2.3 Prudential Indicators for Affordability

2.3.1 The Prudential Code Indicators Numbered 1 to 6 cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Assembly in the form of Revenue Support Grant. The estimate of capital financing costs includes interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability	Estimate Treasury Policy Statement 2012/13	Projection 2012/13
7.	**Ratio of Financing Costs to Net Revenue Stream**		
	Ratio	5.48%	**5.35%**

2.3.2 The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Policy Statement 2012/13	Projection 2012/13
8.	Increase in Band D Council Tax as per Capital Programme	£ 2.43	£ **2.24**

APPENDIX C

Extract from the Treasury Management Strategy (Section 3) included in the Treasury Policy Statement 2012/13
(Approved by Council 22 February 2012)

3.7 Investment Strategy 2012/13

The purpose of the Investment Strategy is to set out the policies for giving priority to the security (protecting the capital sum from loss) and liquidity (keeping the money readily available for expenditure when needed) of the Council's investments. The Strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments. The Council has regard to the Welsh Government's Guidance on Local Government Investments 2010 and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code") 2011 Edition.

Investment Objectives

All investments will be in sterling, thereby reducing the Council's exposure to the risks of currency fluctuations. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are in the order of priority:

(a) the **security** of capital
(b) **liquidity** of its investments
(c) the **yield** of the funds

The Council will aim to achieve the yield on its investments commensurate with the proper levels of security and liquidity. This is consistent with the Welsh Government's Guidance on Local Government Investments and the Communities and Local Government 'Review of the local government investments guidance in England' (November 2009) which states that "investments priorities should be security and liquidity rather than yield".

This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of **Specified Investments** and **Non-Specified Investments.**

A **Specified Investment** is one which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below (extract WG Guidance on Local Government Investments):-

- The investment is denominated in sterling and any payments or repayments of the investment are payable only in sterling.

- The investment is not a long-term investment (contractually committed to be paid within 12 months/364 days).
- The making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting)(Wales) Regulations 2003 [SI 3239 as amended].
- The investment is made with a body or in an investment scheme of high credit quality; or with one of the public sector bodies:
  - (i) the UK Government;
  - (ii) or a local authority in England or Wales (as defined in section 23 of the 2003 Act) or similar body in Scotland or Northern Ireland;
  - (iii) a parish council or community council.

The Council's definition of 'high credit quality' is deemed to be:

- UK Registered Banks and Building Societies holding long-term credit ratings no lower than A+ or equivalent

- UK Registered Banks and Building Societies holding long- term credit ratings no lower than the following – both considered to be within the "Strong Investment Grade":

  A or equivalent for deposits of one month or less
  A- or equivalent for instant access deposits

- UK building societies not meeting this criteria with an asset size more than £500 million and rated BBB (or equivalent) and above

- UK Central Government and UK Local Authorities

It is proposed that specified investments comprise of the following institutions:-

- UK Registered Banks and Building Societies with a high credit quality
- UK Central Government
- UK Local Authorities (excluding parish council or community council)

Building societies are mutually owned financial institutions with a more cautious business model than shareholder owned banks. They are tightly regulated by the Financial Services Authority, which detects problems at an early stage and has encouraged several mergers between societies recently. The probability of a building society defaulting on its financial obligations is therefore low. They operate under a separate legal regime to banks, which limits their lending and borrowing activities, and ranks wholesale deposits, including local authorities, higher than individuals' savings in the unlikely event of an insolvency. This ensures that wholesale depositors would almost certainly receive the full value of their investment from liquidation and the likely loss given default is therefore very low. The Vickers Report has suggested the revision of this insolvency regime and therefore the Council will be mindful of any developments in this area and review its investments in building societies if or when the law is changed.

A **Non-Specified Investment** is any investment that does not fall into the criteria detailed above. The WG Guidance requires the Annual Investment Strategy to specify the types of investments that may be used during the financial year and the maximum amounts upper limits which may be held in each identified category and an overall limit for non-specified investments. This is currently set at a limit of £20m.

Investment Strategy to be followed In-house

The cash flow forecast will be used to divide surplus funds into three categories:

- Short term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long term – cash not required to meet cash flows, and used primarily to generate investment income.

Short term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access bank deposit accounts and short term fixed deposits will be the main methods used to manage short term cash.

Medium term funds which may be required in the next one to twelve months will be managed concentrating on security, with importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium term money market funds.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. The Council would consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long term investments.

With short term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long term borrowing. In addition to the savings on the interest rate differential, this strategy may also reduce the Council's exposure to credit risk and interest rate risk.

Specified Investments

The majority of the Council's surplus funds will be kept in the form of short-term investments with:-

	Counterparty Limit £m
UK registered Banks and Building Societies holding long-term credit ratings no lower than A+ or equivalent & Building Societies with an asset size more than £500 million rated no lower than BBB or equivalent	5.0
UK registered Banks and Building Societies holding long-term credit ratings no lower than : A or equivalent for deposits of one month or less A- or equivalent for instant access deposits	 2.0 2.0
U.K. Local Authorities (unrated local authorities are assumed to hold an AAA rating)	10.0

Non-specified Investments

A maximum of £20m of investments could be in one of the following non-specified categories:-

- Deposits repayable on demand with the Authority's bankers even if they fall below the specified investment credit criteria (category limit £3m)

- Banks owned and domiciled in foreign countries with sovereign credit ratings no lower than AA+ (but still based on the lowest of the 3 credit rating agencies) with a time limit of 6 months (category limit £3m)

- Money market funds rated AAA (category limit £5m)

- Long-term investments with UK central government, UK local authorities or UK banks and buildings societies (category limit £15m):

  - Minimum AAA long term credit rating with a maximum time limit of 5 years
  - Minimum AA- or equivalent long term credit rating with a maximum time limit of 3 years
  - Minimum A+ or equivalent long term credit rating with a maximum time limit of 2 years

The combined values of short and long term investments with any one organisation are subject to the counterparty limits detailed above.

All investments longer than 364 days will only be entered into with prior advice from the Authority's Treasury Management Consultant (Sterling).

The Council does not employ external fund managers to manage the day-to-day Treasury Management activities.

Investments should be made only after the following steps have been taken:

(a) Assessment of the available funds and the suitability of the period over which the investment is to be made;
(b) Reference to the list of approved organisations and to the maximum limit on funds to be placed with a single organisation;
(c) The completion of adequate documentation to ensure the protection of the Council's interests;
(d) Checks to ensure that the interest rates offered are comparable with the other available investments;
(e) Due regard has been paid to the fact that a comparatively high return will usually entail a higher level of risk.

Credit Rating Criteria and their Use

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. Decisions are based on all ratings. Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is very unlikely the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports and other factors such as whether the counterparty has any explicit or implicit government support. This has been endorsed by the Treasury Management Code of Practice and WG's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

The Council has determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment.

Monitoring of Credit Ratings

- The Council receives a new Counterparty List for investment purposes from Sterling (Treasury Management Advisor) at the beginning of each month.

- All credit ratings will be monitored daily by Sterling who will notify the Council by email of any 'rating watch' notices which are acted upon immediately.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately and any investment that can be re-called at no cost will be re-called. Full consideration will be given to recall any other existing investments.

- If a counterparty is upgraded so that it fulfils the Council's criteria, it will be included in the Counterparty List.
- If there are other sources of information about a particular institution that comes to light and puts the credit-worthiness of that institution into doubt, the counterparty will be excluded from the Council's list. The Council will make use of generally available market information including financial press, market data, information on government support for banks and the credit ratings of that government support.
- Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading it (also known as a negative rating watch) so that it is likely to fall below the Council's investment criteria, then investments will be restricted to only instant access investment until the outcome of the review is announced.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment balances/Liquidity of investments

Based on its cash flow forecasts, the Council anticipates its fund balances in 2012/13 to range from nil to £40m. The actual balance varies because of the cash flow during the month as to when income is received (such as grants due, housing benefits subsidy and Revenue Support Grant) and payments are made (such as salaries and wages, major capital expenditure and loan repayments). The actual balance also fluctuates during different parts of the financial year for example, spend on large capital projects being completed towards the last quarter of the financial year.

Any investment that the Council makes for a period in excess of 365 days will be made with a cautious approach to cash flow requirements.

Investment of Money Borrowed in Advance of Need

The Welsh Government maintains that 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. The WG Guidance on Local Authority Investments recommends that the Treasury Policy Strategy reports on the amount of investment of money borrowed in advance of need. This Authority's borrowing is not linked to the financing of specific items of expenditure. However, the Authority's Capital Financing Requirement as at 31 March 2011, was in excess of the actual debt of the Authority. This indicates that there was no borrowing in advance of need or to benefit from the investment of extra sums borrowed.

Investment Training

The Treasury Management Team receives training from the Council's Treasury Management advisers. The Authority also supports personal development so individuals enhance their own knowledge through reading CIPFA guidance, publications and research on the internet.

Treasury Management Advisers

The Council contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by having regular meetings with the advisers. The contract was only initially given for a year and was only extended following an assessment of information that had been received and advice given throughout the first year of the contract. It is up for re-tender in August 2012.

APPENDIX D

Proposed Extract to be inserted Treasury Policy Statement 2012/13

3.7 Investment Strategy 2012/13

The purpose of the Investment Strategy is to set out the policies for giving priority to the security (protecting the capital sum from loss) and liquidity (keeping the money readily available for expenditure when needed) of the Council's investments. The Strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments. The Council has regard to the Welsh Government's Guidance on Local Government Investments 2010 and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code") 2011 Edition.

Investment Objectives

All investments will be in sterling, thereby reducing the Council's exposure to the risks of currency fluctuations. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are in the order of priority:

(d) the **security** of capital
(e) **liquidity** of its investments
(f) the **yield** of the funds

The Council will aim to achieve the yield on its investments commensurate with the proper levels of security and liquidity. This is consistent with the Welsh Government's Guidance on Local Government Investments and the Communities and Local Government 'Review of the local government investments guidance in England' (November 2009) which states that "investments priorities should be security and liquidity rather than yield".

This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of **Specified Investments** and **Non-Specified Investments.**

A **Specified Investment** is one which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below (extract WG Guidance on Local Government Investments):-

- The investment is denominated in sterling and any payments or repayments of the investment are payable only in sterling.
- The investment is not a long-term investment (contractually committed to be paid within 12 months/364 days).

- The making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting)(Wales) Regulations 2003 [SI 3239 as amended].
- The investment is made with a body or in an investment scheme of high credit quality; or with one of the public sector bodies:
  - (i) the UK Government;
  - (ii) or a local authority in England or Wales (as defined in section 23 of the 2003 Act) or similar body in Scotland or Northern Ireland;
  - (iii) a parish council or community council.

The Council's definition of 'high credit quality' is deemed to be:

- UK Registered Banks and Building Societies holding long-term credit ratings no lower than A+ or equivalent

- UK Registered Banks and Building Societies holding long- term credit ratings no lower than the following – both considered to be within the "Strong Investment Grade":

  A or equivalent for deposits of one month or less
  A- or equivalent for instant access deposits

- UK building societies not meeting this criteria with an asset size more than £500 million and rated BBB (or equivalent) and above

- UK Central Government and UK Local Authorities

It is proposed that specified investments comprise of the following institutions:-

- UK Registered Banks and Building Societies with a high credit quality
- UK Central Government
- UK Local Authorities (excluding parish council or community council)

Building societies are mutually owned financial institutions with a more cautious business model than shareholder owned banks. They are tightly regulated by the Financial Services Authority, which detects problems at an early stage and has encouraged several mergers between societies recently. The probability of a building society defaulting on its financial obligations is therefore low. They operate under a separate legal regime to banks, which limits their lending and borrowing activities, and ranks wholesale deposits, including local authorities, higher than individuals' savings in the unlikely event of an insolvency. This ensures that wholesale depositors would almost certainly receive the full value of their investment from liquidation and the likely loss given default is therefore very low. The Vickers Report has suggested the revision of this insolvency regime and therefore the Council will be mindful of any developments in this area and review its investments in building societies if or when the law is changed.

A **Non-Specified Investment** is any investment that does not fall into the criteria detailed above. The WG Guidance requires the Annual Investment Strategy to specify the types of investments that may be used during the financial year and the maximum amounts upper limits which may be held in each identified category and an overall limit for non-specified investments. This is currently set at a limit of £20m.

Investment Strategy to be followed In-house

The cash flow forecast will be used to divide surplus funds into three categories:

- Short term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long term – cash not required to meet cash flows, and used primarily to generate investment income.

Short term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access bank deposit accounts and short term fixed deposits will be the main methods used to manage short term cash.

Medium term funds which may be required in the next one to twelve months will be managed concentrating on security, with importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium term money market funds.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. The Council would consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long term investments.

With short term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long term borrowing. In addition to the savings on the interest rate differential, this strategy may also reduce the Council's exposure to credit risk and interest rate risk.

Specified Investments

The majority of the Council's surplus funds will be kept in the form of short-term investments with:-

	Counterparty Limit £m
UK registered Banks and Building Societies holding long-term credit ratings no lower than A+ or equivalent & Building Societies with an asset size more than £500 million rated no lower than BBB or equivalent	5.0
UK registered Banks and Building Societies holding long-term credit ratings no lower than : A or equivalent for deposits of one month or less A- or equivalent for instant access deposits	 3.0 3.0
U.K. Local Authorities (unrated local authorities are assumed to hold an AA+ rating)	10.0
U.K. Central Government	No limit

Non-specified Investments

At any one point in time, a maximum of £20m of investments could be in one of the following non-specified categories:-

- Deposits repayable on demand with the Authority's bankers even if they fall below the specified investment credit criteria (category limit £3m)

- Banks owned and domiciled in foreign countries with sovereign credit ratings no lower than AA+ (but still based on the lowest of the 3 credit rating agencies) with a long term credit rating no lower than A+ or equivalent and with a time limit of 6 months (category limit £3m)

- Money market funds rated AAA (category limit £5m)

- Long-term investments with UK central government, UK local authorities or UK banks and buildings societies (category limit £15m):

  - Minimum AAA long term credit rating with a maximum time limit of 5 years
  - Minimum AA- or equivalent long term credit rating with a maximum time limit of 3 years
  - Minimum A+ or equivalent long term credit rating with a maximum time limit of 2 years

The combined values of short and long term investments with any one organisation are subject to the counterparty limits detailed above.

All investments longer than 364 days will only be entered into with prior advice from the Authority's Treasury Management Consultant (Sterling).

The Council does not employ external fund managers to manage the day-to-day Treasury Management activities.

Investments should be made only after the following steps have been taken:

(a) Assessment of the available funds and the suitability of the period over which the investment is to be made;
(b) Reference to the list of approved organisations and to the maximum limit on funds to be placed with a single organisation;
(c) The completion of adequate documentation to ensure the protection of the Council's interests;
(d) Checks to ensure that the interest rates offered are comparable with the other available investments;
(e) Due regard has been paid to the fact that a comparatively high return will usually entail a higher level of risk.

Credit Rating Criteria and their Use

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. Decisions are based on all ratings. Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is very unlikely the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports and other factors such as whether the counterparty has any explicit or implicit government support. This has been endorsed by the Treasury Management Code of Practice and WG's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

The Council has determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment.

Monitoring of Credit Ratings

- The Council receives a new Counterparty List for investment purposes from Sterling (Treasury Management Advisor) at the beginning of each month.

- All credit ratings will be monitored daily by Sterling who will notify the Council by email of any 'rating watch' notices which are acted upon immediately.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately and any investment that can be re-called at no cost will be re-called. Full consideration will be given to recall any other existing investments.

- If a counterparty is upgraded so that it fulfils the Council's criteria, it will be included in the Counterparty List.
- If there are other sources of information about a particular institution that comes to light and puts the credit-worthiness of that institution into doubt, the counterparty will be excluded from the Council's list. The Council will make use of generally available market information including financial press, market data, information on government support for banks and the credit ratings of that government support.
- Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading it (also known as a negative rating watch) so that it is likely to fall below the Council's investment criteria, then investments will be restricted to only instant access investment until the outcome of the review is announced.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment balances/Liquidity of investments

Based on its cash flow forecasts, the Council anticipates its fund balances in 2012/13 to range from nil to £40m. The actual balance varies because of the cash flow during the month as to when income is received (such as grants due, housing benefits subsidy and Revenue Support Grant) and payments are made (such as salaries and wages, major capital expenditure and loan repayments). The actual balance also fluctuates during different parts of the financial year for example, spend on large capital projects being completed towards the last quarter of the financial year.

Any investment that the Council makes for a period in excess of 365 days will be made with a cautious approach to cash flow requirements.

Investment of Money Borrowed in Advance of Need

The Welsh Government maintains that 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. The WG Guidance on Local Authority Investments recommends that the Treasury Policy Strategy reports on the amount of investment of money borrowed in advance of need. This Authority's borrowing is not linked to the financing of specific items of expenditure. However, the Authority's Capital Financing Requirement as at 31 March 2011, was in excess of the actual debt of the Authority. This indicates that there was no borrowing in advance of need or to benefit from the investment of extra sums borrowed.

Investment Training

The Treasury Management Team receives training from the Council's Treasury Management advisers. The Authority also supports personal development so individuals enhance their own knowledge through reading CIPFA guidance, publications and research on the internet.

Treasury Management Advisers

The Council contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by having regular meetings with the advisers. The contract was only initially given for a year and was only extended following an assessment of information that had been received and advice given throughout the first year of the contract. It is up for re-tender in August 2012.

APPENDIX E

Extract from the Treasury Management Policy Statement
Staff Involved in Treasury Management

SCHEDULE D

TREASURY MANAGEMENT ROLES OF OFFICERS WITHIN FINANCIAL SERVICES

SECTION 151 OFFICER

1. Ensure policy documents exist and are adhered to, and that they are regularly reviewed.

2. Ensure that a review of the Treasury Management function and its performance takes place at least twice a year.

3. Report to Members, Cabinet and Council on performance and activities of Treasury Management in accordance with the Treasury Management Policy Statement.

4. Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover.

HEAD OF FINANCE & PERFORMANCE / DEPUTY SECTION 151 OFFICER

1. Deputise for the Section 151 Officer in the performance of Treasury Management as required.

CHIEF ACCOUNTANT OR EQUIVALENT NOMINATED OFFICER

1. Review the Treasury Management Policy Statement, assure it is complied with, and that this statement complies with the law.

2. Ensure that Treasury Management Practices exist.

3. Review performance of the Treasury Management function at least twice a year including the financial approval of monitoring reports and annual reports for the Section 151 Officer/Cabinet/Council as required.

4. Ensure all persons engaged in Treasury Management activities receive appropriate training.

5. Ensure the organisation of the Treasury Management function is adequate to meet current requirements.

6. Ensure that there is adequate internal checking and division of duties.

7. Advise the Section 151 Officer on Treasury matters.

FINANCE MANAGER (FINANCIAL CONTROL)

Absence Cover: Group Accountant

1. Manage the overall Treasury function.

2. Prepare and implement the Treasury Management Policy Statement.

3. Ensure that the systems and procedures laid down in the Treasury Management Practices are complied with, and that prescribed limits are not breached.

4. Review Treasury Management Practices i.e. borrowing limits, risk spreading, data recording at least annually.

5. Ensure appropriate division of duties in this section.

6. Ensure credit worthiness of investment counter-parties.

7. Assess and appoint treasury management advisers and monitor their performance.

8. Receive regular reports from Loans and Investment Officer on

   - all loans transactions
   - cash flow, actuals and projections
   - level of debt/investment

9. Produce performance reports for Chief Accountant.

10. Review the annual report on the Treasury Management function as soon as possible at the end of the financial year before it is presented to Council.

11. Review the quarterly monitoring reports including the Treasury Management and Prudential Indicators for Cabinet and Council.

GROUP ACCOUNTANT (FINANCIAL CONTROL)

1. Provide absence cover for Finance Manager (Financial Control)

2. Provide absence cover for Loans and Investment Officer

   NB. The Group Accountant should not deputise for both Finance Manager and Loans and Investment Officer at the same time.

LOANS AND INVESTMENT OFFICER

Absence Cover: Senior Accountants (Financial Control)

1. Make daily decisions on funding, lending, acceptability of treasury instruments and suitable counterparties, and consider legality of proposed action.

2. Dealing and initial record of deal

3. Transmission procedures

4. Prepare Cash Flow projections

5. Prepare and implement the Treasury Management Practices.

6. Provide the Finance Manager (Financial Control) with regular reports on:
   - transactions made
   - cash flow actuals and projects
   - level of debt/investment

7. Produce the Annual Report, Half Yearly Report and Monitoring Reports including the production of the Treasury Management and Prudential Indicators.

8. Assist with the preparation of the Treasury Management Policy Statement.

GROUP ACCOUNTANTS / SENIOR ACCOUNTANTS (FINANCIAL CONTROL)

1. Provide absence cover for Loans and Investment Officer

   As a further internal check the authorisation and approval of the transmission of transactions to the bank will be performed by Finance Managers, Group Accountants and Senior Accountants outside the Financial Control Team.

APPENDIX F

Proposed Extract to be inserted Treasury Policy Statement 2012/13

SCHEDULE D

TREASURY MANAGEMENT ROLES OF OFFICERS WITHIN FINANCIAL SERVICES

SECTION 151 OFFICER

1. Ensure policy documents exist and are adhered to, and that they are regularly reviewed.

2. Ensure that a review of the Treasury Management function and its performance takes place at least twice a year.

3. Report to Members, Cabinet and Council on performance and activities of Treasury Management in accordance with the Treasury Management Policy Statement.

4. Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover.

HEAD OF FINANCE & PERFORMANCE (DEPUTY SECTION 151 OFFICER)

1. Deputise for the Section 151 Officer in the performance of Treasury Management as required.

CHIEF ACCOUNTANT

1. Review the Treasury Management Policy Statement, assure it is complied with, and that this statement complies with the law.

2. Ensure that Treasury Management Practices exist.

3. Review performance of the Treasury Management function at least twice a year including the financial approval of monitoring reports and annual reports for the Section 151 Officer/Cabinet/Council as required.

4. Ensure all persons engaged in Treasury Management activities receive appropriate training.

5. Ensure the organisation of the Treasury Management function is adequate to meet current requirements.

6. Ensure that there is adequate internal checking and division of duties.

7. Advise the Section 151 Officer on Treasury matters.

FINANCE MANAGER (FINANCIAL CONTROL)

Absence Cover: Finance Manager (Technical and Corporate)

1. Manage the overall Treasury function.

2. Prepare and implement the Treasury Management Policy Statement.

3. Ensure that the systems and procedures laid down in the Treasury Management Practices are complied with, and that prescribed limits are not breached.

4. Review Treasury Management Practices i.e. borrowing limits, risk spreading, data recording at least annually.

5. Ensure appropriate division of duties in this section.

6. Ensure credit worthiness of investment counter-parties.

7. Assess and appoint treasury management advisers and monitor their performance.

8. Receive regular reports from Loans and Investment Officer on

   - all loans transactions
   - cash flow, actuals and projections
   - level of debt/investment

9. Produce performance reports for Chief Accountant.

10. Review the annual report on the Treasury Management function as soon as possible at the end of the financial year before it is presented to Council.

11. Review the quarterly monitoring reports including the Treasury Management and Prudential Indicators for Cabinet and Council.

FINANCE MANAGER (TECHNICAL AND CORPORATE)

1. Provide absence cover for Finance Manager (Financial Control)

2. Provide absence cover for Loans and Investment Officer

   NB. The Finance Manager (Technical and Corporate) should not deputise for both Finance Manager (Financial Control) and Loans and Investment Officer at the same time.

LOANS AND INVESTMENT OFFICER

Absence Cover: Accountants (Financial Control) and Finance Manager (Technical and Corporate)

1. Make daily decisions on funding, lending, acceptability of treasury instruments and suitable counterparties, and consider legality of proposed action.

2. Dealing and initial record of deal

3. Transmission procedures

4. Prepare Cash Flow projections

5. Prepare and implement the Treasury Management Practices.

6. Provide the Finance Manager (Financial Control) with regular reports on:
   - transactions made
   - cash flow actuals and projects
   - level of debt/investment

7. Produce the Annual Report, Half Yearly Report and Monitoring Reports including the production of the Treasury Management and Prudential Indicators.

8. Assist with the preparation of the Treasury Management Policy Statement.

FINANCE MANAGER (TECHNICAL AND CORPORATE) / ACCOUNTANTS (FINANCIAL CONTROL)

1. Provide absence cover for Loans and Investment Officer

As a further internal check the authorisation and approval of the transmission of transactions to the bank will be performed by the Group Manager (Financial Planning and Budget Management), Finance Managers (excluding Technical and Corporate) and Accountants outside the Financial Control Team.

APPENDIX G

Extract from the Treasury Management Policy Statement 2012/13

SCHEDULE E

AUTHORISED SIGNATORY LIST

....	Section 151 Officer
....	Head of Finance & Performance, Deputy Section 151 Officer
………………………………………………….	Finance Manager (Financial Control Team)

APPENDIX H

Proposed Extract to be inserted Treasury Policy Statement 2012/13

SCHEDULE E

AUTHORISED SIGNATORY LIST

………………………………………………………………… Section 151 Officer

………………………………………………………………… Head of Finance & Performance, Deputy Section 151 Officer

………………………………………………………… Chief Accountant