APPENDIX I

TREASURY MANAGEMENT STRATEGY 2013-14

Cyngor Bwrdeistref Sirol
Pen-y-bont ar Ogwr
BRIDGEND
County Borough Council

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CONTENTS

1.0 INTRODUCTION

1.1 This Treasury Management Strategy has been prepared in accordance with the Treasury Management in Public Services: Code of Practice 2011 Edition.

1.2 The Prudential Code for Capital Finance in Local Authorities (fully revised 2011) requires the Council to set a number of Treasury Management Indicators and report them within the Treasury Management Strategy. It has been decided to include the remaining Prudential Indicators within this report which revises all of the indicators for 2012-13, 2013-14 and 2014-15, and introduces new indicators for 2015-16 and also 2016-17 to be consistent with the principles contained in the Medium Term Financial Strategy 2013-14 to 2016-17.The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme.

1.3 The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice. The Council borrows money either to meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore any actual loans taken are not associated with particular items of expenditure or assets.

2.0 TREASURY MANAGEMENT POLICY STATEMENT

2.1 The Code stipulates that organisations should have "formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities".

2.2 The Council defines its Treasury Management activities as -

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.3 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage the risks. The Treasury Management Objectives and Risk Management Plan of the Council is attached as **Schedule A** of this Strategy.

2.4 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and using suitable comprehensive performance measurement techniques, within the context of effective risk management. The Authority's high level objectives are detailed below in section 3.2 of its Treasury Management Strategy 2013-14.

2.5 CIPFA's Revised Code of Practice for Treasury Management requires that authorities adopt the following four clauses:

i. The Council will create and maintain, as the cornerstone for effective treasury management:-

- a Treasury Management Strategy, stating the policies, objectives and approach to risk management of its treasury management activities.
- The Council will also maintain suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Council's TMP's are:-

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision–making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

ii. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its Treasury Management Practices. Treasury Management Quarterly Reports are received by Cabinet.

iii. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's strategy, TMP's and CIPFA's Standard of Professional Practice on Treasury Management.

iv. The Authority nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.6 In addition to the Code of Practice, the Welsh Government has issued Guidance on Local Government Investments (March 2010) which requires local authorities to report their Annual Investment Strategy before the start of each financial year. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

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

(a) Cash Flow (daily balances and longer term forecasting);

(b) Investing surplus funds in accordance with the Welsh Government (WG) Guidance on Local Government Investments (March 2010);

(c) Borrowing to finance cash deficits;

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

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

(f) Interest rate exposure management;

(g) Dealing procedures with brokers, bank and Public Works Loans Board;

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

3.0 TREASURY MANAGEMENT STRATEGY 2013-14

3.1 The Content of the Treasury Management Strategy

3.2 The Objectives of the Strategy

The major objectives to be followed in 2013-14 are:-

(a) Borrowing

- To minimise the revenue costs of debt;
- To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing (the current debt maturity profile is shown in **Schedule B**);
- To effect funding in any one year at the cheapest cost commensurate with future risk;
- To forecast average future interest rates and borrow accordingly;
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements;
- To reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change;
- To maximise the use of all capital resources including borrowing, both supported and unsupported, useable capital receipts and grants and contributions.

(b) Investment

- To maintain capital security;
- To maintain liquidity so funds are available when expenditure is needed;

Treasury Management risks will be most efficiently and effectively managed when the net position of borrowing and investments is examined together to evaluate their net exposure to risk.

3.3 Economic Context and Forecasts for Interest Rates 2013-14

The UK economy is continuing its weak recovery from the recession. Despite stronger economic growth data towards the end of 2012, the momentum in GDP growth developed during the 2012 Olympics affected the third quarter and GDP is unlikely to be sustained whilst uncertainty over the economic outlook persists.

Consumer Price Inflation has picked up from the low of 2.2% in September to 2.7% in December and it is expected to be affected by volatility in energy and commodity prices throughout 2013.

Against this background it is considered that it could be 2016 before official UK interest rates rise. The UK's "safe haven" status and the minimal prospect of short-term rate rises, should maintain gilt yields near their current lows.

Arlingclose (Council's TM Advisers) central interest rate forecast – December 2012

	Rate	3 Bank month LIBID	12 month LIBID	20-year gilt yield*
Q1 2013	0.50	0.40	0.90	2.80
Q2 2013	0.50	0.40	0.90	2.80
Q3 2013	0.50	0.40	0.95	2.80
Q4 2013	0.50	0.45	0.95	2.80
H1 2014	0.50	0.50	1.00	2.90
H2 2014	0.50	0.50	1.00	2.90
H1 2015	0.50	0.55	1.10	3.00
H2 2015	0.50	0.60	1.10	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

HM Treasury Survey of Forecasts – November 2012

	Average annual Bank Rate %			
	2013	2014	2015	2016
Highest	0.60	1.60	2.80	3.60
Average	0.50	0.65	1.30	1.80
Lowest	0.25	0.25	0.50	0.50

3.4 The Council's Policy on Use of Financial Derivatives

The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). These instruments are used by organisations to manage exposure to interest rate or exchange rate fluctuations. Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly state their policy on the use of derivatives in the annual strategy.

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives within loans or investments (including interest rate collars and forward deals) will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

3.5 Treasury Management Advisers

The Council contracts with Arlingclose 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 previous contract expired on the 31 August 2012 and a tender exercise was conducted to award a new contract. Sterling Consultancy Services (SCS) were 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 remain unchanged.

3.6 The Council's Current Treasury Management Position

The Council's portfolio position as at 31 December 2012 was:

		Principal £m	Average Rate %
Fixed rate long term borrowing	PWLB*	77.65	4.70
	Market	-	-
Variable rate long term borrowing	PWLB*		
	Market (LOBO*)	19.25	4.65
Total Long Term Borrowing**		**96.90**	**4.69**
Other Long Term Liabilities**		21.30	-
Other Short Term Liabilities		1.37	-
Total Other liabilities		**22.67**	
Short Term Borrowing***		-	-
TOTAL DEBT		**119.57**	
Fixed rate investments		14.00	0.30
Variable rate investments		8.00	0.74
TOTAL INVESTMENTS****		**22.00**	**0.46**

* Public Works Loan Board (PWLB)
Lender Option Borrowing Option (LOBO)

** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more. It includes the Long Term Liability for the Authority's Private Finance Initiative (PFI) of £20m.

*** No short term borrowing outstanding

*** 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 no more than 3 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 and used for cash-flow purposes

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

Details of the debt maturity profile are shown in **Schedule B**. 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 and therefore, the Authority being given the option to accept the increase or to repay the loan without incurring a penalty.

Investments are anticipated to drop from £22m on 1 January 2013 to between £12m to £15m by the 31 March 2013. This is due partly to the reduction in Council Tax and National Non-Domestic Rates in February and March 2013 and increase in expenditure expected for the capital programme.

3.7 Borrowing and Debt Strategy 2013-14

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. With short-term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans, variable rate loans or to not borrow and reduce the level of investments held. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs.

The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time.

The expected borrowing requirement for the next 4 years is:

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
New borrowing	6.00	5.00	5.00	5.00

However, depending on the pattern of interest rates during the year, it may be more cost effective to defer borrowing until later years, and to temporarily reduce the size of the Council's investment balance instead. In addition the Council may borrow for short periods of time, normally for one to two weeks to cover unexpected cash flow shortfall.

The approved sources of long term and short term borrowing will be:-

	Fixed	Variable
PWLB	Yes	Yes
Bank Loan	Yes	Yes
Overdraft	No	Yes
Negotiable Bonds	Yes	Yes
Leasing	Yes	No

All of the above instruments are available to the Section 151 Officer and will be used as deemed appropriate. However, it is anticipated that in practice, borrowing will be confined to -

(a) PWLB
(b) Market Temporary Loan
(c) Market Long Term Loan
(d) Overdraft
(e) Leasing

Long Term Borrowing (one year or over)

Before any long term borrowing is undertaken an assessment of the Council's requirement must be made. This will include:

(a) A calculation of the funds needed to meet capital expenditure;
(b) Options Appraisal to determine the funding decision, as required by the Prudential Code;
(c) Ensuring that the level of long term borrowing is consistent with the Treasury Management Strategy and the Treasury Management and Prudential Indicators;
(d) Assessment of the PWLB interest rates and current market rate to ascertain the cheapest source of finance;
(e) The selection, dependant upon the level of the interest rate, of the most appropriate period for borrowing bearing in mind the maturity profile of existing Council debt.

The Council has assumed long term borrowing rates of 5.00% in the Treasury Management Strategy for 2013-14.

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

From 1 November 2012, the Government introduced a “certainty rate” for new PWLB loans which is a differential rate for PWLB loans to local authorities who provided detailed information in relation to their proposed long-term borrowing and associated capital spending. The Council submitted this information, so this will make PWLB loans available to the Council at a reduced interest rate by 20 basis points (0.20%).

Short Term Borrowing (less than one year)

Before any borrowing is undertaken an assessment of the requirement will be made, along the same lines as that used for long term borrowing.

3.8 Investment Strategy 2013-14

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".

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.

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 short or medium term liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on services. These funds will continue to be managed with the emphasis on capital security. Whilst the maintenance of the liquidity of these investments is less of an issue, it should still be possible to sell them, with due notice, if large spending commitments arise unexpectedly. All investments longer than 364 days will only be entered into with prior advice from the Authority's Treasury Management Advisers (Arlingclose).

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.

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.

The Council is required to state their definition of **"high credit quality"** within the Investment Strategy and the Council's definition is deemed to be:

	Credit Rating (or equivalent)	Time Limit	Counterparty Cash Limit
UK registered Banks whose lowest published long-term credit rating is:	AAA AA+ AA AA-	5 years 4 years 3 years 2 years	£8m each of which no more than £3m over 1 year
	A+ A A-	1 year 6 months 3 months	£6m £5m £5m
UK organisations whose lowest published long-term credit rating is:	AAA	2 years	£2m
UK building societies whose lowest published long-term credit rating is:	BBB	3 months	£3m
Money market funds* and similar pooled vehicles whose lowest published credit rating is:	AAA	1 year	£2m
UK Central Government	n/a	10 years	No limit
UK Local Authorities**but excluding parish and community councils	n/a	2 years	£15m

** as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*
***as defined in the LocalGovernment Act 2003, and similar authorities in Scotland*

N.B. Long-term credit ratings refers to those published from Fitch, Moody's and Standard and Poor

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.**

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:
  - (i)a body or in an investment scheme of high credit quality; or
  - (ii) the UK Government;
  - (iii) 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;
  - (iv) a parish council or community council.

Non-Specified Investments

A Non-Specified Investment is any investment that does not fall into the criteria detailed above under the Specified definition. The Council does not intend to make any investments denominated in foreign currencies, nor with any low credit quality bodies.

The WG Guidance requires the Council's Investment Strategy to set an overall limit for non-specified investments which is currently set at £20m. Therefore, 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 **(limit £3m)**

- UK Building Societies without credit ratings with assets greater than £500m with a time limit of 1 month **(counterparty limit £2m category limit £6m)**

- 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 **(counterparty limit £1m category limit £3m)**

- Long-term investments with UK central government, UK local authorities or UK banks and buildings societies of "high credit quality" **(subject to the counterparty limits detailed in the "high credit quality" table above and category limit £15m)**

- Money market funds rated AAA **(category limit £6m)**

The combined values of short and long term investments with any one organisation are subject to the counterparty limits detailed above. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial UK franchises and the arms- length of the parent-subsidiary relationships

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 and investments in lower rated and unrated building societies will be kept under continuous review.

<u>Credit Rating Criteria and their Use</u>

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. The lowest available credit rating will be used to determine credit quality. 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.

Monitoring of Credit Ratings

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

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

- Where an entity has its credit rating downgraded with the result that it no longer meets the Council's approved investment 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 with the affected counterparty

- 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 "rating watch negative" or "credit watch negative") 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

The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves held. Based on its cash flow forecasts, the Council anticipates its fund balances in 2013-14 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 specific grant income, 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, expenditure 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 December 2012, 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.

4.0 ANNUAL MINIMUM REVENUE PROVISION STATEMENT

4.1 Under the Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, an Annual Minimum Revenue Provision (MRP) Statement needs to be produced that details the methodology for the charge to revenue for debt redemption. It requires a local authority to calculate for the current year an amount of minimum revenue provision which it considers to be prudent. The MRP charge for 2013-14 for capital expenditure incurred before 1 April 2008, and for government supported expenditure incurred after that date, will be based on the Capital Financing Requirement after accounting adjustments at 4% of the opening balance.

4.2 For all unsupported capital expenditure incurred on or after 1 April 2008, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over life of asset. The first charge can be delayed until the year after the asset is operational but this will be at the discretion of the Section 151 Officer.

4.3 The MRP Charge 2013-14 for supported borrowing is detailed below:-

SUPPORTED BORROWING	£'000
CFR for Calculation of Supported MRP	**129,707**
MRP (4% Of Adjusted CFR)	**5,188**

The estimated 2013-14 MRP Charge for expenditure that has been financed by unsupported borrowing is detailed below:-

UNSUPPORTED BORROWING	£'000
Asset Life of 5 years e.g. Fitness equipment	110
Asset Life of 6 to 7 years e.g. Grounds maintenance equipment	66
Asset Life of 10 years e.g. Fleet	4
Asset Life of 15 to 20 years e.g. Highways	200
Asset Life of 25 to 30 years e.g. Buildings	453
MRP for Unsupported Borrowing	**834**

The MRP requirement for the PFI Scheme, Innovation Centre and reclassified finance leases under International Financial Reporting Standards (IFRS) is equivalent to the write down of the liability for the year. Likewise, in the case of finance leases, the MRP requirement will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. However, there will be no budgetary impact, as although the MRP will increase, there will be compensating contributions in the service budgets.

	£’000
MRP for PFI 2013-14	442
MRP for Finance Leases 2013-14	54
MRP for Innovation Centre 2013-14	28
Total MRP for PFI/Finance Leases/Innovation Centre	**524**

The total estimated MRP cost for 2013-14 is therefore £6,546k

	£’000
MRP (4% Of Adjusted CFR)	5,188
MRP for Unsupported Borrowing	834
Total MRP for PFI/Finance Leases/Innovation Centre	524
Total MRP for PFI & Finance Leases	**6,546**

5.0 TREASURY MANAGEMENT INDICATORS

5.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for 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.	Interest Rate Exposure	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
	Total Projected Principal Outstanding on Borrowing 31 March	102.90	108.88	113.87	118.87	123.87
	Total Projected Principal Outstanding on Investments 31 March	12.00	12.00	12.00	12.00	12.00
	Net Principal Outstanding	**90.90**	**96.88**	**101.87**	**106.87**	**111.87**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	125.00	131.00	136.00	141.00	146.00
2.	**Upper Limit on variable interest rates (net principal) exposure**	40.00	45.00	50.00	55.00	55.00

The Section 151 Officer will manage interest rate exposures between these limits in 2013-14.

5.2 A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and 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 in 2013-14 where this is expected to lead to an overall saving or reduction in risk.

No	Maturity structure of fixed rate borrowing during 2013/14	Upper limit	lower limit
3.	Under 12 months	50%	0%
	12 months and within 24 months	25%	0%
	24 months and within 5 years	50%	0%
	5 years and within 10 years	60%	0%
	10 years and above	100%	40%

5.3 The Upper Limit for **Total Principal Sums Invested over 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.		2012-13 £m	2013-14 £m	2014-5 £m	2015-16 £m	2016-17 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	15	25	25	25

5.4 A new Treasury Management indicator was introduced in 2011 which was effective from 2012-13 to measure the upper limit on net debt indicator intended to highlight where the Council was borrowing in advance of need. However, as a consequence of changes introduced to the Prudential Code the Treasury Indicator Gross and Net Debt has been withdrawn.

6.0 PRUDENTIAL INDICATORS

6.1 The Prudential Indicators are required to be set and approved by Council in accordance with the Prudential Code.

Council is required to formally adopt CIPFA's Treasury Management Code and the revised version of the 2011 code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

6.2 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	2012-13 £'000	2013-14 £'000 Est.	2014-15 £'000 Est.	2015-16 £'000 Est.	2016-17 £'000 Est.
1	**Estimates of Capital Expenditure** Non – HRA	41,155	39,183	25,942	18,766	9,580
	Total Capital Expenditure	**41,155**	**39,183**	**25,942**	**18,766**	**9,580**
	Financed by :-					
	Capital Grants and Contributions	23,495	14,681	10,882	11,574	4,208
	Capital Receipts	3,387	9,375	7,734	2,446	1,426
	Revenue	121	300	0	0	0
	Net Financing Need for Year	**14,152**	**14,827**	**7,326**	**4,746**	**3,946**

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 finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the 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	2012-13 £'000 Proj.	2013-14 £'000 Est.	2014-15 £'000 Est.	2015-16 £'000 Est.	2016-17 £'000 Est.
2	**Capital Financing Requirement (CFR)**					
	Opening CFR (1 April) excluding PFI	140,431	148,906	157,711	158,646	156,971
	Opening PFI CFR	20,627	20,217	19,776	19,299	18,787
	Opening Finance Lease CFR	248	95	41	0	0
	Opening Innovation Centre	871	845	816	770	719
	Total Opening CFR	**162,177**	**170,063**	**178,344**	**178,715**	**176,477**
	Movement in CFR excluding PFI & other	8,475	8,805	934	(1,674)	(2,368)
	liabilities	(410)	(442)	(475)	(513)	(552)
	Movement in PFI CFR	(153)	(54)	(41)	0	0
	Movement in Finance Lease CFR	(26)	(28)	(47)	(51)	(55)
	Movement in Innovation Centre CFR	**7,886**	**8,281**	**371**	**(2,238)**	**(2,975)**
	Total Movement in CFR					
	Closing CFR (31 March)	**170,063**	**178,344**	**178,715**	**176,477**	**173,502**
	Movement in CFR represented by :-					
	Net Financing Need for Year (above)	14,152	14,827	7,326	4,746	3,946
	Minimum and Voluntary Revenue Provisions*	(6,266)	(6,546)	(6,955)	(6,984)	(6,921)
	Total Movement	**7,886**	**8,281**	**371**	**(2,238)**	**(2,975)**

*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.

Limits to Borrowing Activity

6.3 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.

Following consultation in 2012, CIPFA published changes to the Prudential Code and the **Gross Debt** position (Borrowing and Long Term Liabilities) replaced Net Debt (Gross Debt minus Investments) and is shown below:

No.	Prudential indicators For Prudence Gross Debt 31 March	2012-13 £'000 Proj.	2013-14 £'000 Est.	2014-15 £'000 Est.	2015-16 £'000 Est.	2016-17 £'000 Est.
3	External Borrowing	102,898	108,883	113,867	118,867	123,867
	Long Term Liabilities (including PFI)	21,157	20,633	20,069	19,506	18,898
	Total Gross Debt	**124,055**	**129,516**	**133,936**	**138,373**	**142,765**

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, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2012-13 (i.e. the preceding year) plus the estimates of any additional capital financing requirement for the current and next three financial years, however 2016-17 has also been included to be consistent with the Medium Term Financial Strategy.

No.	Prudential indicators For Prudence	2012-13 £'000 Proj.	2013-14 £'000 Est.	2014-15 £'000 Est.	2015-16 £'000 Est.	2016-17 £'000 Est.
4	**Gross Debt & the CFR**					
	Total Gross Debt	124,055	129,516	133,936	138,373	142,765
	Closing CFR (31 March)	**170,063**	**178,344**	**178,715**	**176,477**	**173,502**

As can be seen from the above table, the Council does not have any difficulty meeting this requirement in 2012-13 and does not envisage any difficulties in the current and future years. This view takes into account current commitments, existing plans and the proposals for next year's budget.

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	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
5	**Authorised limit for external debt**					
	Borrowing	140	146	151	156	161
	Other long term liabilities	30	30	30	30	30
	Total	**170**	**176**	**181**	**186**	**191**
6	**Operational Boundary**					
	Borrowing	110	115	120	120	125
	Other long term liabilities	24	24	24	24	24
	Total	**134**	**139**	**144**	**144**	**149**

Prudential Indicators for Affordability

6.4 The Prudential Code Indicators Numbered 1 to 6 above 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 estimates of capital financing costs include 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	2012-13	2013-14	2014-15	2015-16	2016-17
7.	Estimate - Ratio of Financing Costs to Net Revenue Stream	5.33%	5.00%	5.15%	5.35%	5.43%
	Ratio	**5.33%**	**5.00%**	**5.15%**	**5.35%**	**5.43%**

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	2012-13	2013-14	2014-15	2015-16	2016-17
8.	**Estimate - Increase in Band D Council Tax as per Capital Programme**	£ 1.60	£ 1.64	£ 1.64	£ 1.64	£ 1.64

7.0 PERFORMANCE INDICATORS

7.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators as opposed to the prudential indicators which are predominantly forward looking. One debt performance indicator is where the average portfolio rate of interest (as detailed in Section 3.6) is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK Local Authorities. The rate of return on investments is monitored against the benchmark of the average 7 day LIBID rate (London Inter

Bank Rate) and can also be benchmarked against the average Bank Rate. Within the Annual Treasury Report at the end of the financial year the appropriate indicators will be stated.

8.0 DELEGATED POWERS

8.1 Council

The setting of borrowing limits and Treasury Management and Prudential Indicators requires the resolution of full Council.

8.2 Section 151 Officer and Deputy Section 151 Officer

The Section 151 Officer functions in respect of Investments, Borrowing and Trust Funds are contained in the Council's Constitution under the Financial Procedure Rules (FPR's). An extract of the relevant FPR's are contained in **Schedule C**.

In practice most of the work is carried out by Officers of the Finance Division, and a summary of the roles of the staff concerned is contained in **Schedule D** with the authorised signatory list in **Schedule E**.

9.0 Glossary of Terms and Definitions

Bank Rate
The official bank rate (also called the Bank of England base rate or BOEBR) is the interest rate that the Bank of England charges Banks for secured overnight lending. It is the key interest rate for enacting monetary policy.

Call account
'Call account' is a bank deposit where funds can be withdrawn at any time.

Capital Financing Requirement (CFR)
The Capital Financing Requirement reflects the Council's underlying need to finance capital expenditure. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing (for example grants and contributions or capital receipts), the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the PWLB.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.

CIPFA Treasury Management Code of Practice "The Code"
This represents official practitioners' guidance. The government expects local authorities and other public service authorities to adopt and comply with the Code. The recommendations made in the Code provide a basis for these public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

Counterparty
A counterparty is a party with which a transaction is done.

Credit Rating Agency
'Credit rating agency', or 'rating agency', or CRA, is a firm that issues opinions on companies' ability to pay back their bonds. These opinions are often abbreviated on an alphanumeric scale. The three CRAs used by the Council are Fitch, Moody's, and Standard and Poor's.

Credit Rating
A credit rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and capital not being paid and of the extent to which the lender is protected in the event of default. An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Dealing
Dealing is the process of carrying out transactions with a counterparty, including agreeing the terms of an investment. This is usually conducted through a Money Market Broker.

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment. e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

DMO
The Debt Management Office (DMO) is an executive agency of HM Treasury responsible for carrying out the government's debt management policy and managing the aggregate cash needs of the Exchequer. It is also responsible for lending to local authorities and managing certain public sector funds.

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Gilt
A debt security issued by the HM Treasury (via the DMO) and listed on the London Stock Exchange. There are two different types of gilt – conventional gilts, which pay a fixed rate of interest (coupon) and index-linked gilts, where the interest and principal changes in line with the Retail Price Index.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

International Financial Reporting Standards (IFRS)
The new set of accounting rules which all local authorities were required to comply with from 1 April 2010.

Lenders' Option Borrower's Option (LOBO)
A loan by a financial institution whereby the lender has the option to re-price the loan at predetermined intervals throughout the life of the loan. Typical loan structures would have an overall maturity of 40 – 70 years, with the bank having the option to re-price every six months to every 15 years. If the lender exercises its right to re-price the loan (the lenders

option), the borrower has the right to accept the new rate or repay the loan without penalty (the borrowers option).

Liquidity
Liquidity refers to an asset that can be turned into cash or the ability to quickly sell or buy an asset

LIBID
LIBID is the London Interbank Bid Rate. It is the rate of interest at which first class banks in London will bid for deposit funds. Often used as a benchmark for deposit rates. LIBID is not fixed in the same way as LIBOR, but is typically one-sixteenth to one-eighth of a per cent below LIBOR.

LIBOR
'London Interbank Offer Rate', or LIBOR, is the interest rate which banks pay when lending to each other. It is calculated at a specified time each day and based on what it would cost a panel of banks to borrow funds for various periods of time and in various currencies. It then creates an average of the individual banks' figures.

Minimum Revenue Provision (MRP)
This is an amount that is set aside to repay loans. This should be a prudent amount.

Money Market Fund
Money Market Funds are investment companies that invest in mostly short-term, highly rated money market instruments. The funds are generally rated AAA due to high diversification and low average maturity. Investors buy shares in the company and are then paid a daily return based on the underlying income of the fund. Most of the funds are also instant access, so can be used to manage liquidity requirements.

Private finance initiative (PFI) – a central government initiative which aims to increase the levels of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities' participation.

Prudential Code/Prudential Indicators
The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting limits of affordability re levels of capital expenditure.

PWLB
The Public Works Loan Board (PWLB) is a UK Government agency and part of the Treasury's Debt Management Office. Its function is to lend money from the National Loans Fund to local authorities and other public bodies and to collect the repayments.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. They are also set at a fixed rate of interest.

Treasury Bills
Treasury bills are short-term debt instruments issued by the UK or other governments. They usually have a maturity of one year or less and provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Treasury Management Strategy
This is the Council’s overall policy and framework by which it will carry out that policy in relation to its borrowing and investment needs in the coming financial year.

Treasury Management Policy Statement
This is the Council’s statement of intent in respect of its treasury management. It is prescribed by the CIPFA Treasury Management Code of Practice.

SCHEDULES

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TREASURY MANAGEMENT OBJECTIVES AND RISK MANAGEMENT PLAN

1.0 Objectives

1.1 Bridgend County Borough Council supports the objective of treasury management as stated by CIPFA

> "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"

that is to find the right balance between risk and return.

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

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

1.4 The Council is likely to remain a substantial net borrower for the long term. Its debt portfolio will be managed on a long term basis with high regard to the taxpayers and citizens both those currently and in the future. Treasury Management activity should seek the lowest 'whole life cost' at an appropriate level of risk.

1.5 The major objectives of the Council are:-

(a) Borrowing

- To minimise the revenue costs of debt;
- To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing);
- To effect funding in any one year at the cheapest cost commensurate with future risk;
- To forecast average future interest rates and borrow accordingly;

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements;

- To reschedule debt in order to take advantage of potential savings as interest rates change.

- To maximise the use of all capital resources including borrowing, both supported and unsupported, useable capital receipts and grants and contributions.

(b) Investment

- To maintain capital security;

- To maintain policy flexibility.

- To achieve a level of return greater than would be secured by internal investment;

1.6 Treasury Management risks will be most efficiently and effectively managed when the net position of borrowing and investments is examined together and their net exposure of risk.

2.0 <u>Risk and Risk Management</u>

2.1 Local Authority treasury risk management could be defined as :-

" the on-going activity of adjusting the authority's treasury exposures due to the changing market or domestic circumstances, in order to manage risks and achieve better value in relation to the authority's objectives".

2.2 The Council's overall 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 Investment Guidance issued through the Act. 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.

2.3 Overall these procedures require the Council to manage risk by formally adopting the requirements of the Code of Practice and approving annually in advance Prudential and Treasury Management Indicators for the following three years. These are required to be reported and approved at the meeting in which the budget is set and the Council Tax determined. The Council meeting in February preceding the new financial year approves the Treasury Management Strategy and the Prudential and Treasury Management Indicators for the forthcoming 3 years.

2.4 The Council also conducts a mid year review of its treasury management policies, practices and activities and any revisions of the Investment Strategy to enable increased flexibility in an ever changing financial market and investment opportunities available will be approved by formal Council.

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

- Credit and Counterparty 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;
- Interest Rate risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

2.6 Actual performance is also reported annually to Members in the form of the Annual Treasury Management Report which is reviewed by Audit Committee. These policies are implemented by a central Financial Control Team within Accountancy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

3.0 Types of Risk

3.1 Credit and Counterparty risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the Investment Strategy contained within the Treasury Management Strategy for the relevant financial year.

The Council uses long-term credit ratings published by Fitch Ratings Ltd, Standard & Poor's and Moody's Investors Service to establish the credit quality of counterparties (issuers and issues) and investment schemes. Decisions are based on the lowest available credit rating. In the current climate, relying mainly on credit ratings is considered to be inappropriate. Full regard is given to other available information on the credit quality of banks and building societies, including credit default swap prices, and other factors such as whether the counterparty has any explicit or implicit government support. This has been endorsed by the revised edition of the Treasury Management Code of Practice and the Welsh Government's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings.

The 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.

The Council has an investment account with the UK Debt Management Office – Executive Agency of UK Government. The interest rates offered by this facility will be below other counterparties but this is commensurate with the high level of security and reduced risk offered.

During the first three quarters of 2012/13, the majority of the Council's surplus funds were kept in the form of short-term investments and were placed with UK registered banks and building societies deemed to be of high credit quality, UK local government, the UK Debt Management Office (DMO) and an instant access deposit account with the Council's bankers and spread over a number of counterparties. This was deemed a much safer option even though it may be at the expense of extra basis points in interest. Counterparty limits are constantly reviewed and where market conditions dictate, the limit will be dropped. For the final quarter of 2012/13, this approach will be continued.

3.2 Liquidity risk

Bridgend CBC is a net borrowing authority with a policy of borrowing according to need. The Section 151 Officer will use cash-flow forecasts to determine the availability of surplus cash for investment or the need to take short term funding, The Council is not required to keep surplus cash balances on its bank accounts although this may occur, however, we will aim to maintain an even cashflow.

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives – as outlined in the WG Local Government Investments (2010). The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the Public Works Loan Board (PWLB) provides access to longer term funds. 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. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant residual risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council maintains a significant debt and investment portfolio and manages its liquidity position through the setting and approval of Treasury Management and Prudential Indicators and the approval of the treasury and investment strategies as well as through cash flow management procedures required by the Code of Practice. It arranges fixed term loans and investments with a range of maturity dates within the framework and indicators approved each year. Longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

3.3 Refinancing and Maturity Risk

In accordance with the CIPFA Code of Practice on Treasury Management the Council is required to set a Treasury Management Indicator to manage risk which sets upper and lower limits for the maturity structure of its fixed rate borrowings 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 in 2013/14 where this is expected to lead to an overall saving or reduction in risk:

A further Treasury Management indicator is setting Upper Limit for Total Principal Sums invested for more than 364 days to control 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.

The Council approved treasury and investment strategies address the main risks and the Financial Control Team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments providing stability of maturities and returns in relation to the longer term cash flow needs.

3.4 Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest charged to revenue within the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fixed rate protects the Council from increased interest charges as an equivalent loan would now cost more;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fixed rate prevents the Council from receiving higher investment income from the same principal invested.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or the Movement in Reserves Statement (MiRS). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the Council Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the MiRS, unless the investments have been designated as Fair Value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's Treasury Management and Prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this, a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Financial Control Team monitors market and forecast interest rates within the year to adjust exposures appropriately in conjunction with the Council's treasury management advisers. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Sensitivity to Interest Rate Movements

The table below highlights the estimated impact of a 1% increase/decrease in interest rates on the projected treasury portfolio of the Council at 31/03/13.

	2013/14 Estimated £'000 +1%	2013/14 Estimated £'000 -1%
Interest on Borrowing	133	0
Investment Income	(120)	120
Net costs	13	120

3.5 Other Risks

There are two other types of treasury management risks that the Council are not exposed to as follows:-

Price risk - The Council, excluding the pension fund, does not invest in equity shares so is not exposed to changes in share prices. Changes in the prices of fixed interest investments are managed as part of the Authority's interest rate risk management strategy.

Foreign exchange rate risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

4.0 Risk Management Strategy

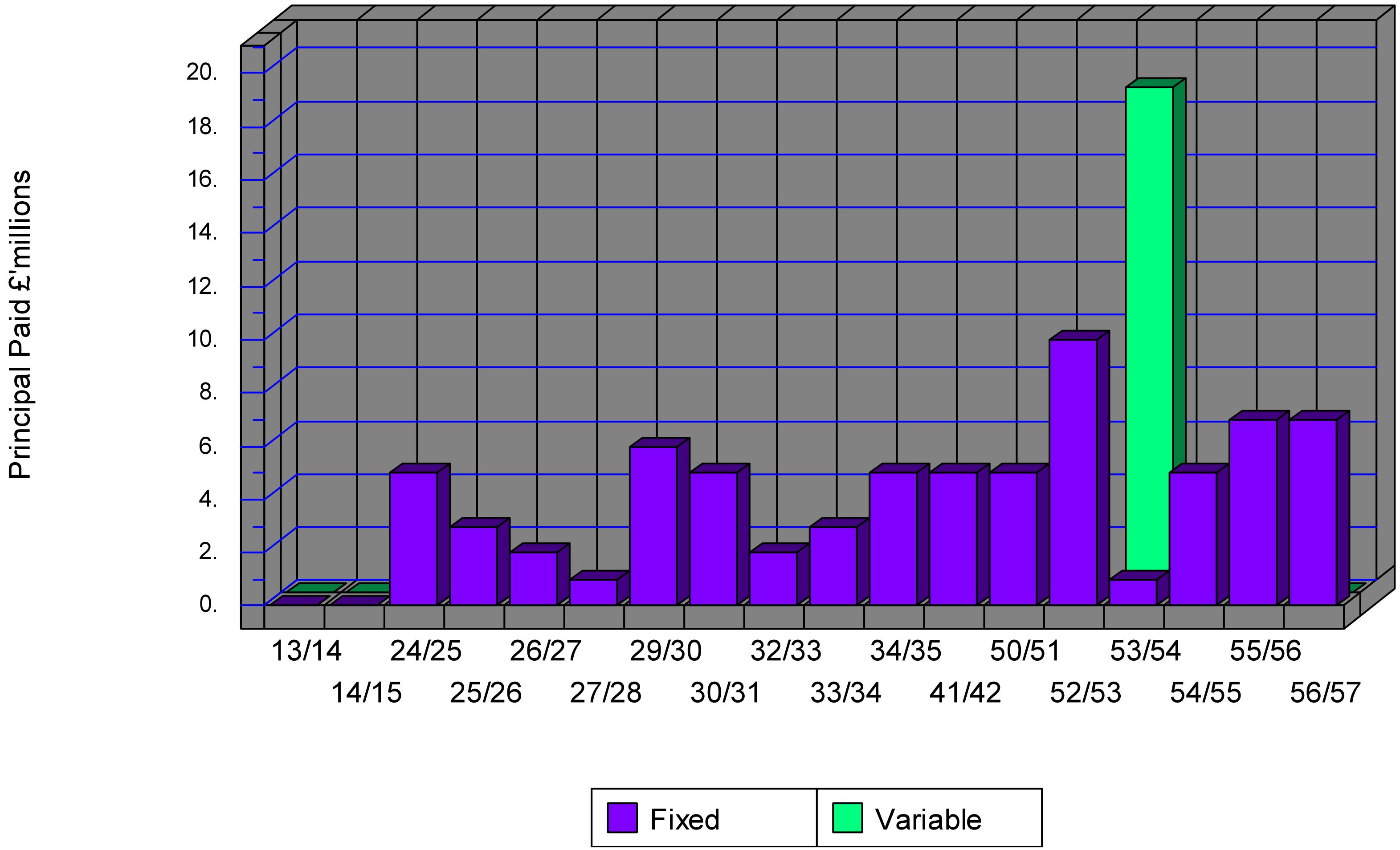
4.1 In light of particular events with the Eurozone Crisis and the resultant effect on independently assessed 'Credit Ratings', the basis underlying which financial institutions are selected for investment by the Council is continually reviewed.

4.2 Where it is deemed appropriate, new investments will be made and spread over a number of counterparties and kept short and restricted to UK banks and building societies with a high credit quality and with the Council's own bankers in an instant access account.

Schedule B

Long Term Debt Outstanding – Principal Due to be paid

MATURITY ANALYSIS - 2013 to 2057



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SCHEDULE C

Extract for the Financial Procedure Rules

17. Investments, borrowings and trust funds

17.1 The Council has adopted CIPFA's Code of Practice on Treasury Management in the Public Services.

17.2 The Council shall determine a Treasury Policy Statement setting out its strategy and procedures for Treasury Management and set the Council's Treasury Management and Prudential Indicators for the forthcoming financial year.

17.3 All investments and borrowing transactions shall be undertaken in accordance with the Treasury Management Strategy Statement approved by Council and with due regard to the requirements of the CIPFA Code of Practice on Treasury Management in the Public Services.

17.4 All investments of money under its control shall be made in the name of the Council.

17.5 The Chief Finance Officer shall report quarterly to the Cabinet, summarising borrowing and investment activity and indicating compliance with any statutory or Council approved guidelines together with a half yearly and an annual report to Council.

17.6 The Chief Finance Officer, or an agent nominated by the Chief Finance Officer, will be the Council's Registrar of loan instruments and shall maintain records of all borrowing of money by the Council.

17.7 The Chief Finance Officer will have a duty to ensure a proper, efficient and effective mix of borrowing and investments.

17.8 The Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management policies and practices. The Committee will review the Half Yearly Monitoring Report and Annual Report on Treasury Management for scrutiny. The Committee will make any recommendations for improvements on treasury management to the Chief Finance Officer and raise any concerns that the Council exceeding its legal powers with the Monitoring Officer.

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 Strategy.

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 Strategy, 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.

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

FINANCE MANAGER (FINANCIAL CONTROL)

Absence Cover: Chief Accountant

1. Manage the overall Treasury function.

2. Prepare and implement the Treasury Management Strategy.

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

   - transactions made
   - 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.

12. Provide **emergency** absence cover for the Loans and Investment Officer.

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

LOANS AND INVESTMENT OFFICER

Absence Cover: Accountants (Financial Control) and Finance Manager (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 projections
   - 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 Strategy.

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 Finance Managers (excluding Financial Control) and Accountants outside the Financial Control Team.

SCHEDULE E

AUTHORISED SIGNATORY LIST

.... Section 151 Officer

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

………………………………………………… Group Manager - Chief Accountant

………………………………………………… Group Manager -Financial Planning and Budget Management