BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

13 NOVEMBER 2013

REPORT OF THE SECTION 151 OFFICER

HALF-YEAR TREASURY MANAGEMENT REPORT 2013-14

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 an overview of treasury activities;

- report on the projected Treasury Management and Prudential Indicators for 2013-14;

- report on the proposed changes to the Treasury Management Strategy 2013-14 and seek Council's approval.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1 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 The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 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 Strategy (TMS) 2013-14 on 27 February 2013 prior to the start of the financial year. 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 2013
- Borrowing and Debt Strategy 2013-14
- Borrowing Outturn for the period 1 April to 30 September 2013
- Investment Strategy 2013-14
- Investment Outturn for the period 1 April to 30 September 2013
- Treasury Risk Management
- Review of the Treasury Management Strategy 2013-14
- Treasury Management and Prudential Indicators 2013-14

4. Current Situation

4.1.1 The treasury position for 1 April to 30 September 2013:

		Principal as at 01-04-13 £m	Average Rate %	Principal as at 30-09-13 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.65	4.70	77.64	4.70
	Market	-	-	-	-
Variable rate long term funding	PWLB*	-	-	-	-
	Market (LOBO)	19.25	4.65	19.25	4.65
Total Long Term Borrowing**		**96.90**	**4.69**	**96.89**	**4.69**
Other Long Term Liabilities** (details in section 4.1.4)		21.30		21.60	
Short Term Borrowing		**-**		**-**	
TOTAL DEBT		**118.20**		**118.49**	
Other Short Term Liabilities (details in section 4.1.4)		1.32		**1.29**	
Fixed rate investments		6.70	0.32	15.00	0.38
Variable rate investments		9.00	0.66	2.10	0.70
TOTAL INVESTMENTS***		**15.70**	**0.51**	**17.10**	**0.42**

* Public Works Loan Board (PWLB)

** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more. It includes PWLB debt of £16k with less than a year to maturity at 01/04/13

*** 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 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

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 £96.89m long term borrowing outstanding as at 30 September 2013 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 2014) 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 long term liabilities figure of £21.60m at 30 September 2013 includes £20m for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg). The £1.29m short term liabilities figure includes £0.93m 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 Arlingclose and the services provided to the Council 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.

4.2 Borrowing and Debt Strategy for 2013-14 (Extract from TMS 2013-14)

4.2.1 The Expectation for Interest Rates

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2013-14, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose, our Treasury Management Advisers.

This view was seeing the Bank Rate remaining at 0.50% for 2013-14 and it was considered that it could be 2016 before official UK interest rates rise.

4.2.2 The Adopted Borrowing and Debt Strategy 2013-14

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. 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, taking into account the risks forecast. 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 Council assumed long term borrowing rates of 5.00% in the Treasury Management Strategy for 2013-14.

4.3 Borrowing Outturn for 1 April to 30 September 2013

4.3.1 The Bank Rate started the financial year at 0.50% and remained at that level from 1 April to 30 September 2013. It is forecast that it will remain at that level for the remainder of the 2013-14 financial year.

4.3.2 No long or short term borrowing has been taken during the period 1 April to 30 September 2013. During the second half of 2013-14, in conjunction with Arlingclose, the loan portfolio will be reviewed for any potential savings as a result of any loan rescheduling.

4.4 Investment Strategy 2013-14 (Extract from TMS 2013-14)

4.4.1 The purpose of the Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2013-14 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 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. 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.

4.4.3 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 2013

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 regularly makes investments with UK local authorities and UK registered banks and building societies. Other investments are also placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only 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 and ensures compliance with the Council's investment objective that security takes priority over yield.

4.5.3 Favourable cash flows have provided surplus funds for investment and as shown in section 4.1.1, the balance on investments at 30 September 2013 was £17.10m and a breakdown is shown in the table below. Included in this figure is £0.93m 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).

Counterparty Category	Instant Access Deposit Accounts @ 30-9-13 £m	Deposits Maturing Within 1 Month @ 30-9-13 £m	Deposits Maturing Within 1-2 Months @ 30-9-13 £m	Deposits Maturing Within 2-3 Months @ 30-9-13 £m	Total £m
UK Banks	2.10	-	2.00	-	4.10
UK Building Societies	-	1.00	3.00	-	4.00
Local Authorities	-	7.00	-	2.00	9.00
Total	**2.10**	**8.00**	**5.00**	**2.00**	**17.10**

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 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.

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 Treasury Management and Prudential Indicators 2013-14

4.7.1 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 2013-14 set out in the Council's Treasury Management Strategy and also the projected indicators for 2013-14.

4.8 Review of the Treasury Management Strategy 2013-14

4.8.1 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 Strategy 2013-14, however, it would be beneficial for the Council to make some minor revisions to the Investment Strategy included within this Statement (section 3.8 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.

4.8.2 The main proposed changes are:

- U.K. registered Banks and other organisations holding the approved long term credit ratings –the time limits have been varied.

- The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

- Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser (category limit of £5m). This would also require approval from the Section 151 Officer (or officer nominated by them as per the Roles of Officers in Schedule D TMS 2013-14).

An extract of the revised Investment Strategy 2013-14 incorporating all the proposed changes are highlighted and shown in **Appendix D.**

4.8.3 The following proposed addition has been made to the Chief Accountant's role in the Treasury Management Roles of Officers within Financial Services (Schedule D of the TMS 2013-14):

- Deputise for the Deputy Section 151 Officer in the performance of Treasury Management as required

An extract of the revised Roles of Officers incorporating this change is highlighted and shown in **Appendix E**.

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 Strategy 2013-14 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 Management Strategy 2013-14 as highlighted in the report and Appendices D and E;
- Council note the Authority's treasury management activities for the first half of 2013-14;
- Council note the projected Treasury Management and Prudential Indicators for 2013-14;

Ness Young
Section 151 Officer
Corporate Director - Resources
17 October 2013

Contact Officer: Karin Thomas
Loans & Investment Officer

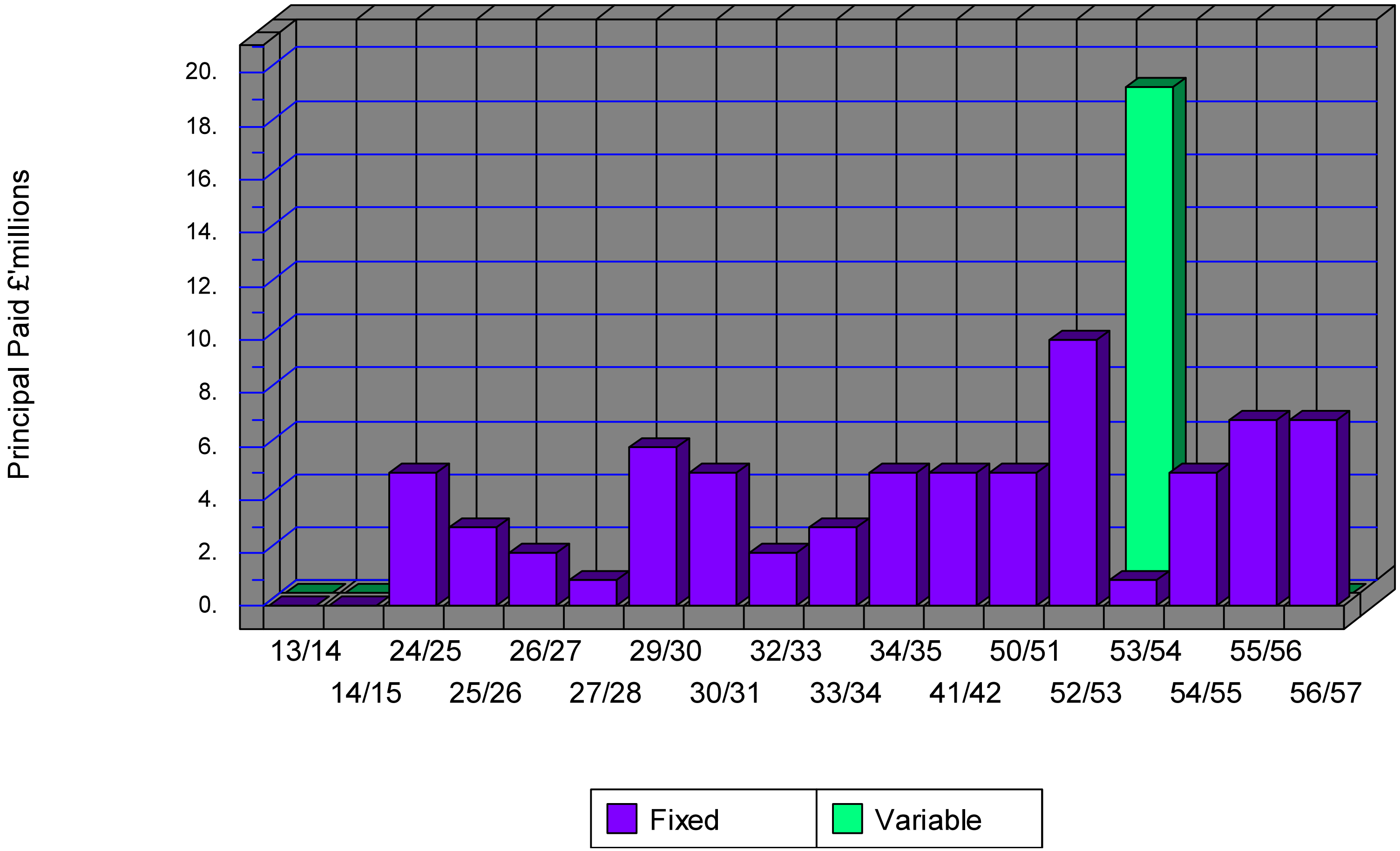
Telephone: 01656 643312

E-mail: Karin.Thomas@bridgend.gov.uk

Postal Address: Bridgend County Borough Council
Performance - Financial Services
Raven's Court
Brewery Lane
Bridgend
CF31 4AP

Background documents:
Treasury Management Strategy 2013-14

MATURITY ANALYSIS - 2013 to 2057



APPENDIX B

1 TREASURY MANAGEMENT INDICATORS 2013-14

1.1.1 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.

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.		Treasury Management Strategy 2013-14 £m	Projection 31-03-2014 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2014	108.88	**96.88**
	Total Projected Principal Outstanding on Investments 31 March 2014	12.00	**12.00**
	Net Principal Outstanding	**96.88**	**84.88**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	131.00	**71.63**
2.	**Upper Limit on variable interest rates (net principal) exposure**	45.00	**13.25**

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

1.1.2 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 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	Projection 2013-14
3.	Under 12 months	50%	0%	**0.02%**
	12 months and within 24 months	25%	0%	**0.02%**
	24 months and within 5 years	50%	0%	**0.00%**
	5 years and within 10 years	60%	0%	**0.00%**
	10 years and above	100%	40%	**99.96%**

1.1.3 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.		Treasury Management Strategy 2013-14 (Limit) £m	Projection 31-03-14 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	**5**

2 PRUDENTIAL INDICATORS 2013-14

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 and the revised edition of the 2011 Code was adopted by Council on 22 February 2012.

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 Management Strategy 2013-14 £'000	Projection 31-03-14 2013-14 £'000
1	**Estimates of Capital Expenditure**		
	Non – HRA	39,183	42,927
	Total Capital Expenditure	**39,183**	**42,927**
	Financed by :-		
	Capital Grants and Contributions	14,681	14,519
	Capital Receipts	9,375	8,170
	Revenue	300	774
	Net Financing Need for Year	**14,827**	**19,464**

The capital expenditure figures have changed from the Treasury Management Strategy 2013-14 as the capital programme approved by Council on 27 February 2013 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 an increase in the Net Financing Need for 2013-14.

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 finance capital expenditure and forms the basis of the charge to the General 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, Innovation Centre and HALO Leisure Contract 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 met from existing revenue budgets. The first charge will be delayed until the asset is operational.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2013-14 £'000	Projection 2013-14 £'000
2	**Capital Financing Requirement (CFR)**		
	Opening CFR (1 April 2013) excluding PFI	148,906	144,280
	Opening PFI CFR	20,217	20,217
	Opening Finance Lease CFR	95	95
	Opening Innovation Centre	845	845
	Opening HALO	-	144
	Total Opening CFR	**170,063**	**165,581**
	Movement in CFR excluding PFI & other liabilities	8,805	13,138
	Movement in PFI CFR	(442)	(442)
	Movement in Finance Lease CFR	(54)	(54)
	Movement in Innovation Centre CFR	(28)	(28)
	Movement in HALO CFR	-	1,122
	Total Movement in CFR	**8,281**	**13,736**
	Closing CFR (31 March 2013)	**178,344**	**179,317**
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	14,827	19,464
	Adjustment for Halo	-	1,239
	Minimum and Voluntary Revenue Provisions*	(6,546)	(6,967)
	Total Movement	**8,281**	**13,736**

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, Innovation Centre and Halo

2.2 Limits to Borrowing Activity

2.2.1 The Council's long term borrowing at the 30 September 2013 was £96.89m 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 **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence Gross Debt 31 March	Estimate Treasury Management Strategy 2013-14 £'000 Est.	Projection 31-3-14 2013-14 £'000
3	External Borrowing	108,883	96,883
	Long Term Liabilities (including PFI)	20,633	21,900
	Total Gross Debt	**129,516**	**118,783**

The reason for the reduction from the estimated indicator is because there was no borrowing taken during 2012-13 and it is forecast that there will be no long term borrowing in 2013-14.

2.2.2 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 2013-14. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2013-14 £'000	Projection 31-03-14 2013-14 £'000
4	**Gross Debt & the CFR**		
	Total Gross Debt	129,516	118,783
	Closing CFR (31 March 2013)	**178,344**	**179,317**

2.2.3 A further two Prudential Indicators control the Council's overall level of debt to support capital expenditure. These are detailed below and confirms that the Council is well within the limit set :-

- 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 Management Strategy 2013-14 £m	Projection 31-03-14 2013-14 £m
5	**Authorised limit for external debt -**		
	Borrowing	146	
	Other long term liabilities	30	
	Total	**176**	
6	**Operational Boundary**		
	Borrowing	115	
	Other long term liabilities	24	
	Total	**139**	
	Borrowing		**97**
	Other long term liabilities		**22**
	Total		**119**

2.3 Prudential Indicators for Affordability

2.3.1 The Prudential Code Indicators Numbered 1 to 6 above in section 2.1 and 2.2 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 Welsh Government 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	Estimate Treasury Management Strategy 2013-14	Projection 2013-14
7.	**Ratio of Financing Costs to Net Revenue Stream**		
	Ratio	5.00%	**5.00%**

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 Management Strategy 2013-14	Projection 2013-14
8.	Increase in Band D Council Tax as per Capital Programme	£ 1.64	£ **1.64**

APPENDIX C

Extract from the Treasury Management Strategy 2013-14(Section 3.8) (included as Appendix I of the Medium Term Financial Strategy approved by Council 27 February 2013)

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.

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. 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.

APPENDIX D

Proposed Extract to be inserted Treasury Management Strategy 2013-14(Section 3.8)

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:

(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".

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, building societies and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA AA+ AA AA-	6 years 5years 4years 3years	£8m each of which no more than £3m over 1 year
	A+ A A- BBB+	2 years 1 year 6 months 100 days	£6m of which no more than £3m over 1 year £5m £5m £5m
UK registered building societies whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	BBB	2 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

The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

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:

- If the credit rating of the Authority's bankers falls below the minimum criteria in the table above, and following approval from the Authority's Treasury Management Advisers 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 3 months **(counterparty limit £1m category limit £4m)**

- 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 £3m category limit £5m)**

- 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)**

- Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council’s treasury management adviser (category limit of £5m). This would also require approval from the Section 151 Officer (or officer nominated by them as per the Roles of Officers in Schedule E).

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 Prudential Regulation 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.

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. 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.

APPENDIX E

Proposed Extract to be inserted Treasury Management Strategy 2013-14 Staff Involved in Treasury Management

SCHEDULE D

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

9. 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.