EAST HERTS COUNCIL

AUDIT COMMITTEE - 23 JANUARY 2013

EXECUTIVE - 5 FEBRUARY 2013

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 AND MINIMUM REVENUE PROVISION POLICY STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The report sets out the 2013/14 Treasury Strategy Statement and Annual Investment Strategy together with the setting of Prudential Indicators.

RECOMMENDATION FOR AUDIT COMMITTEE;	
That:	
(A)	**the Committee considers the 2013/14 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators and makes comments to the Executive.**
RECOMMENDATIONS FOR EXECUTIVE:	
That:	
(A)	**the 2013/14 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators for East Herts Council be approved; and**
(B)	**the Policy on Minimum Revenue Provision (MRP) be approved.**

1.0 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 2.10); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.0 Report

2.1 The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy; (including fund manager review)
- Minimum Revenue Provision (strategy)
- Responsibility of Treasury activities defined within the organisation

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

1. increases in interest charges caused by increased borrowing (or

reduced interest earnings where capital receipts are used) to finance additional capital expenditure; and

2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.2 Treasury Limits for 2012/13 to 2015/16

2.2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the authorised limit represents the legislative limit specified in the Act.

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

2.2.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

2.3 Prudential Indicators for 2011/12 - 2015/16

2.3.1 The following prudential indicators (in table below) are relevant for the purposes of setting an integrated treasury management strategy.

2.3.2 Members are asked to note that the fall in the ratio of financing costs to net revenue spend, reflects the usage of capital receipts and the lower rate of return on investments. This increases in the latter years with rises in interest rates.

2.3.3 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted in March 2002 by the full Council.

PRUDENTIAL INDICATOR	2011/12	2012/13	2013/14	2014/15	2015/16
(1) EXTRACT FROM BUDGET	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Probable**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure	5.527	4,178	4,226	1,388	1,137
Financed by :					
Capital receipts	4.521	620	1040	775	400
Capital Grants	497	288	228	200	175
Third party contributions		56	58	34	0
Revenue	25	25	25	25	25
Net Financing need for the year	-484	-3,189	-2,875	-354	-537
Ratio of financing costs to net revenue stream	(1.22%)	(2.90%)	(2.34%)	(1.64%)	(1.23%)
Net borrowing requirement					
brought forward 1 April	(61,198)	(58,932)	(55,742)	(52,867)	(52,512)
carried forward 31 March	(58,932)	(55,742)	(52,867)	(52,512)	(51,972)
in year borrowing requirement – reduction in amounts invested	2,226	3,190	2,875	0,355	0.540

Capital Financing Requirement as at 31 March	(44,028)	(40,840)	(37,965)	(37,610)	(37,070)
Incremental impact of capital investment decisions					
Increase in council tax (band D) per annum	£0.86	£1.06	£1.15	£0.38	£0.31
(2) TREASURY MANAGEMENT	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Authorised limit for external debt -					
borrowing	14.230	14,750	15,600	15,900	16,500
other long term liabilities	2,770	2,350	2,000	1,600	1,000
TOTAL	17,100	17,100	17,600	17,600	17,600
Operational boundary for external debt -					
borrowing	10,000	10,000	9,500	9,900	10,000
other long term liabilities	2,770	2,350	2,000	1,600	1,000
see above					
TOTAL	12,770	12,350	11,500	11,500	11,000
Upper limit for fixed interest rate exposure					
expressed as either :-					
Net principal re fixed rate borrowing	100%	100%	100%	100%	100%
Investments	98%	98%	98%	98%	98%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	50%	50%	50%	50%	50%
Investments	95%	95%	95%	95%	95%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	65,000	61,000	60,000	59,000	58,000

Maturity structure of new fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

2.4 Current Portfolio Position

2.4.1 The Council's treasury portfolio position at 30.11.12 comprised:

	Principal		Ave Rate	
		£m	£m	%
Fixed rate funding	PWLB	1.5		8.875
	Market	6.0		8.785
			7.5	8.803
Variable rate funding	PWLB	Nil		
	Market	Nil		
TOTAL DEBT			7.5	8.803
TOTAL INVESTMENTS			73.4	2.%

2.5 Borrowing Requirement

2.5.1 Nil in 2013/14 as no borrowing is needed to support capital expenditure (use of investments). A borrowing requirement will continue to arise in the forth coming years based on expected capital expenditure net of other sources of funding (capital receipts, grants, revenue contributions). However the continued use of investments will negate the need to borrow.

2.6 Prospects for Interest Rates

2.6.1 The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

2.6.2 **Sector View** Interest rate forecast – November 2012.

	Q/E4 2012	Q/E1 2013	Q/E2 2013	Q/E3 2013	Q/E4 2013	Q/E1 2014	Q/E2 2014	Q/E3 2014	Q/E4 2014	Q/E1 2015
Bank Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.75%
5 yr PWLB Yield	1.5%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%	1.8%	2.0%	2.2%
10 yr PWLB Rate	2.5%	2.5%	2.5%	2.6%	2.6%	2.7%	2.7%	2.8%	3.0%	3.2%
25 yr PWLB Rate	3.7%	3.8%	3.8%	3.8%	3.8%	3.9%	3.9%	4.0%	4.1%	4.3%

Sector's current interest rate view is that in respect of the Bank Rate:-

- Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 1 of 2015 despite inflation currently being well above the Monetary Policy Committee inflation target.
- Hopes for an export led recovery appear likely to be disappointed due to the difficulties that continue in the Eurozone (40% of UK exports)
- Growth prospects are weak and consumer spending, the usual driving force of recovery is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

Fixed interest borrowing rates are based on UK gilt yields which continue to be low and may remain low for some time.

2.7 <u>Economic (Forward View)</u>

2.7.1 Economic forecasting remains troublesome with so many external influences weighing on the UK. There does, however appear to be consensus among analysts that the economy remains fragile and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate and were to become too prohibitive, so causing a worsening

of the Eurozone debt crises and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- a continuation of high levels of inflation;
- the risk of the UK's main trading partners' in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- potential for protectionism i.e. an escalation of the currency war/ trade dispute between the US and China.

The overall balance of risks is weighted towards the downside. With the focus of consumers, corporates and banks on reducing their borrowings, rather than spending, this will continue to forestall a return to robust growth in western economies.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK. The prospects for any interest rate changes before 2015 are very limited.

2.8 Borrowing Strategy

2.8.1 It is anticipated that there will be no capital borrowings required during 2013/14. However under the prudential code borrowings are permissible but with a negative Capital Finance Requirement, this would be difficult to justify. The running down of investments also has the benefits of reducing exposure to interest rate and credit risk. This will be continually monitored in conjunction with the treasury advisers.

2.8.2 External v. Internal Borrowing

Comparison of gross and net debt positions at year end	**2011/12**	**2012/13**	**2013/14**	**20014/15**	**2015/16**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Probable outturn**	**Estimate**	**Estimate**	**Estimate**
Actual external debt (gross)	7,500	7,500	7,500	7,500	7,500
Cash balances	(66,643)	(63,240)	(60,370)	(60,010)	(59,470)
Net debt	(59.143)	(55,740)	(52,870)	(52,510)	(51,970)

The Council currently has a difference between gross debt and net debt (after deducting cash balances). The positive net debt will decrease as the Capital programme is financed from internal borrowing, or if a change of Policy of external borrowing was introduced. By not borrowing, it reduces the credit risk on investments.

2.9 Debt Rescheduling

2.9.1 Due to high rates of interest payable on the outstanding £1.5 million PWLB loans and the expected low level of the corresponding discount rates for maturities, any potential restructuring or premature repayment of the loans would be very expensive as their repayment would attract heavy premiums (in excess of £1M).

2.9.2 If the market conditions do change, any opportunities will be investigated, to pursue any potential advantages to the Council.

2.10 Annual Investment Strategy

2.10.1 **Investment Policy**

2.10.1.1The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

(a) the security of capital and
(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.10.1.2 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.

2.10.1.3 Investment instruments identified for use in the financial year are shown below under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be set through the Council’s Treasury Management Practices. These have been amended in accordance with the report to Council on the 4 July 2012.

Specified Investments

An investment is a specified investment if it satisfies the conditions set out below:-

(a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.

(b) The investment is not a long-term investment (maximum of 1 year).

(c) The investment does not involve the acquisition of share capital or loan capital in any corporate body.

(d) Either of the following conditions is met:

(i) The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or a parish council or community council.

(ii) The investment is made with a body or in an investment scheme which has been awarded a high credit rating (as specified in the tables below *) by a credit rating agency.

(e) These offer high security and high liquidity.

	*Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
Term deposits - UK government	-	In-house
Term deposits - other LA’s (including police & fire authority’s)	-	In-house
Term deposits - banks and building societies**	*Short-term F1 Long-term A, Individual_, Support 1,2,3	In-house and fund managers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	*Short-term F1 Long-term A, Individual_, Support 1	Fund managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	*Short-term F1, Long-term A, Individual _, Support 1,2,	Fund managers
1. Callable deposits	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3_	Fund managers
UK Government Gilts	AAA-AA	Fund managers
Bonds issued by multilateral development banks	AAA	Fund managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
1. Money Market Funds	*Short-term F1, Long-term AAA, Individual _, Support 1,2,3	Fund managers and In-house
2. Enhanced cash funds	*Short-term F1, Long-term AAA, Individual _,	Fund managers and in-house
3. Short term funds	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
4. Bond Funds	*AAA	Fund managers
5. Gilt Funds	*AAA-AA	Fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	*AAA	In-house on a ‘buy-and-hold basis. Also for use by fund managers
Sovereign bond issues (ie other than the UK govt)	*AAA	Fund managers
Treasury Bills	AAA	Fund Managers . In-house on a buy and hold basis.

** If forward deposits are to be made, the forward period plus the detail period should not exceed one year in aggregate.

<u>Non-Specified Investments:</u>

Do not meet the definition for specified investments i.e. maturities more than 1 year and subsequently the risk is considerably greater. The maximum to be held in each category of non-specified investments is as follows:-

	* Minimum Credit Criteria	Use	**Max% of total investments	Max maturity period
Term deposits - other LAs (with maturities in excess of 1 year)		In-house	60%	5 years
Term deposits - banks and building societies (with maturities in excess of 1 year)	*Short-term F1, Long-term A, Individual _, Support 1,2,3	In-house	80%	5 years
Term deposits with unrated counterparties : any maturity	Used to be unrated building societies and wholly owned subsidiaries)	Not permitted		5 years
Commercial paper issuance by UK banks covered by UK Government guarantee	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers		5 years
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	80%	5 years
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	5 years
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	2 years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund Managers	50%	5 years

	* Minimum Credit Criteria	Use	**Max% of total investments	Max maturity period
UK Government Gilts with maturities in excess of 1 year	AAA-AA	Fund Managers	100%	10 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	Fund managers	40%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA-AA	Fund managers	40%	10 years
Sovereign bond issues (ie other than the UK govt) with maturities in excess of 1 year	AAA	Fund managers	50%	10 years
Corporate Bonds : **the use of these investments would constitute capital expenditure** (bonds other than government bonds)	*AAA	Fund Managers(subject to regulation changes)	10%	5 years
Floating Rate Notes : **the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank** (ie bonds with interest rate that varies in line with the market rate of interest, reset say every 3 months)	*AAA	Fund Managers but not permitted where the investment would constitute capital investment.	10%	5 years
Property fund: **the use of these investments would normally constitute capital expenditure**		Usable but the position regarding capital expenditure to be clarified before undertaking.	10%	10 years

** Note: When setting these limits it includes both in-house and externally managed funds.

The Council's external fund manager will comply with the Annual Investment Strategy.

The agreements between the Council and the fund manager additionally stipulate guidelines and duration and other limits in order to contain and control risk. In brief terms these are the maximum investment that is permissible with any one counterparty limited by value or percentage, with the exception of the UK Government.

For any in-house monies this Council uses the creditworthiness service provided by Sector Treasury Services. This service has been enhanced and now uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard & Poors forming the core element. However, it does not rely solely on the current ratings of counterparties but also uses the following as overlap:-

- Credit watches and credit outlooks from credit rating agencies
- CD's spread to give early warning of likely changes to credit ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries.

This modelling approach combines credit ratings, credit watches, credit Outlooks and CD spreads in a weighted scoring for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties.

Counter-party limits with individual banking groups would not exceed £10m with the exception of those already individually approved (Lloyds £20m and Nat West £20m)

Sole reliance will not be placed on the use of this external service. In addition this Council will use market data and information on government support for banks.

2.10.1 **Local Authority Mortgage Scheme (LAMS)**

The funding that was provided in 2012/13 for the Lams scheme is within the Capital expenditure programme and the financial parameters are not inclusive to treasury management.

2.10.2 **In-House Funds**

In-house funds are mainly cash flow derived and therefore investments will be made with reference to short term interest rates (ie rates for investments up to 12 months). Current policy has seen the withdrawal of the funds from Swip which have been redirected into fixed term deposits and recently a money market fund. The policy to increase counter party limits with British banks to take advantage of their more attractive rates was approved at Council on 4thJuly 2012.The Investment board met during the year and will continue to do so to consider the maturing fixed term investments and liquid funds held in the money market fund. This will include assessing the feasibility of using Alternative and Enhanced cash funds. The daily cash flow funds staying with our own bankers.

2.10.3 Interest Rate Outlook: Sector is forecasting that Bank Rate will stay flat until March 2015 with the first rise to 0.75%. This will continue until the rate rises to 1.75% in March 2016. It would therefore be prudent to look at the period of investments and their interest rates against this background information. For 2013/14 the Council has assumed investment return of 1.98% on the investments made in house. For the medium term planning process rates of 1.89% (2014-15) 1.62% (2015-16) and 1.7% (2016-17) have been assumed.

For its cash flow generated balances, the Council will seek to utilise its business reserve account or short term notice accounts in order to benefit from the compounding of interest and revisiting investing short-term in money market funds. Where the opportunity is available investing with other locals on a short term basis.

2.11 **Fund Managers Review and Forecasts**

East Herts Council employ only one fund manager Investec. The Funds from Scottish Widows (SWIP) were withdrawn during 2012/13.

2.11.1 **Investec Asset Management**

As explained at a meeting with Councillors this fund is restricted in its options to increase its returns in the current market. The intention at the beginning of 2011/12 was to withdraw the funds and place in fixed term . Subsequently it was felt that this fund offered more balance to the overall total investments of the Council with fixed term investment being undertaken in house. Therefore the Scottish Widows Fund was liquidated.

2.11.2 With markets remaining volatile and ideal opportunities within various asset classes remaining scarce, Investec achieved a commendable outperformance over its relative benchmark in the second quarter of 2012. The fund was predominately focused on the CD market but took advantage, when they felt comfortable, of opportunities within the gilt market. With this prudent approach the performance should continue to improve.

2.11.3 This performance is set out below:

	Merrill Lynch 03 yr gilt* benchmark	**East Hertfordshire Investec fund net of fees**	Variance
Quarter ended 30/06/2012	0.38%	**0.22%**	(0.16%)
Quarter ended	0.28%	**0.39%**	.11%

30/09/2012			
Half Year 2012-13	0.66%	**0.61%**	(0.05%)

For the year 2012/13 it is estimated that a return of 0.6%-0.9% will be made. For 2013/14 a range of returns between 0.6% and 1.0% is estimated.

2.11.4 **Scottish Widows Investment Partnership**

The Treasury Management Investment Board met on 11 October 2011 to discuss the deepening crises within Europe. The decision was taken to liquidate the holding in this Money Market Fund because of the counter party holdings with some of the European banks. The funds were to be placed in short dated UK government securities of not more than 3 months. Subsequently as stated earlier the fund has been liquidated during 2012/13 and the funds invested internally. (Reported to Audit Committee 19th September).

2.11.5 At 30 November 2012 Investec's holding on behalf of the Council was £21,893,326. As can be seen with a 0.25% variance on Fund Manager's prediction a variance of around £54,733 either way is effected on the Council's Revenue Budget.

2.11.6 **End of year Investment Report**

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

2.11.7 Summary of Strategy

2.11.8 No new borrowings to finance capital expenditure until capital receipts and other funding has been fully applied. This will be continually monitored in conjunction with the Treasury Advisers.

2.11.9 Any debt rescheduling opportunities will be investigated.

2.11.10 Fund Manager to trade gilts and Certificate of Deposit, Treasury Bills, Money Market Funds with objective of maximising yields.

2.11.11 The Investment board will continue to meet and make decisions on maturing deposits and the funds held in money market funds in conjunction with the council's advisers, taking into account the fragility of banks and volatility of the money markets.

2.11.12 A 0.9% return has been assumed (for investments other than the structured/ fixed deposit at 3.72% & 2%) in 2013/14 for budgetary setting. However this is subject to final review prior to the Council setting its budget.

2.12 Minimum Revenue Provision (MRP)

The Council needs to agree options for the MRP (the provision to repay debt) annually. Capital receipts from stock transfer mean that no new borrowings are anticipated in the medium term. The method which is most appropriate will be considered when any new borrowings are entered into.

2.12.1 For capital expenditure incurred on or after 1st April 2009, which is financed by borrowing or credit arrangements, one of the following options will be used:-

Option 1 – Asset Life Method

Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method, the concept of an "MRP Holiday" makes it debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 2 – Depreciation Method

Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with Option 1 the "MRP Holiday" will be available for assets yet to be brought into service.

2.12.2 Under new regulations the method by which the Council provides for the repayment of it's borrowings for capital expenditure incurred before 1st April 2008, either of the two methods below can be used:-

Method 1 - Regulatory

Where debt is supported by RSG, authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated in this way.

Method 2 – Capital Financing Requirement

This method will be based upon 4% of an authority's non-housing

CFR at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present.

This in the past has resulted in a nil requirement and the indications are that this will remain the same.

3.0 Policy on the use of external service providers

The Council uses Sector Treasury Services as it's external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

3.1 Role of the Section 151 Officer

The Section 151 officer is responsible for all monies in the hands of the Council. This includes the Treasury Management function.

All borrowings, lending and finance will be in accordance with the CIPFA Code of Practice on Treasury Management.

This is incorporated within the Financial Regulation on Treasury Management.

3.2 Treasury Management scheme of delegation

(i) The Council's Audit Committee reviews reports, and comments are passed on to the Executive.
(ii) Executive considers any comments from Audit Committee and recommends approval to full Council.
(iii) Monthly health check monitoring reports are through CMT, then to Executive and then to full Council.
(iv) Quarterly reports through Audit Committee to Executive.
(v) Investment board recommends financial investments.
(vi) Delegation for officers is detailed within the constitution.
(vii) The training needs for treasury management is periodically reviewed.

4.0 Implications/Consultations

4.1 Information on corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A' .**

Background Papers

None

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