Northampton Borough Council
Treasury Management Strategy 2013-14

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Introduction and Equalities Statement

Introduction

The Council is required to adopt the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Fully revised second edition 2009) and it is a requirement under that Code of Practice to produce an annual strategy report on proposed treasury management activities for the year.

The Treasury Management Strategy Report incorporates:

(i) The Capital Financing and Borrowing Strategy for the coming year including:

- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
- The Affordable Borrowing Limit as required by the Local Government Act 2003.

(ii) The Investments Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

The purpose of the Treasury Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

Key Principles

The key principles of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes are that:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The Treasury Strategy that follows, and the Council's Schedules to the Treasury Management Practices at report Appendix E are drafted in the context of these principles, as well as the requirements of the four key clauses (report Appendix A), the treasury management policy statement (report Appendix C), and the Treasury Management Practices Main Principles (report Appendix D).

General Fund and HRA

The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA.

The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.

The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount		**Interest Rate**
HRA Credit Arrangements CFR: concession agreements and finance leases		Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)		Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under funded CFR)		Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over funded CFR)		Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)		Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)		Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

For the purpose of calculating interest rates:

- HRA cash balances are based on the average of opening and closing HRA cash balances.
- HRA CFR external debt is based on actual external debt
- Other HRA CFR balances is based on the mid year position

Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with LOBOs.

Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment, in the event of the failure of a counterparty.

Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two, using relevant available data. For example, in the event of impairment of an investment counterparty, the loss will be apportioned between the two funds based on an estimated proportion of cash balances held.

Equalities Statement

Equalities Impact Assessment (EIA) screening has been carried out on the Council's Treasury Strategy for 2013-14, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs.

The EIA screening has determined that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

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Capital Financing and Borrowing Strategy

1. Capital Financing

The Council’s capital programme is financed by borrowing and by other available sources such as capital receipts, grants, third party contributions and revenue contributions.

Where borrowing is used to finance the Council’s capital expenditure this is done under the prudential borrowing regime, with the Council funding the full costs of borrowing from its own revenue resources. This method of funding, sometimes referred to as unsupported borrowing, is particularly suitable for ‘spend to save’ schemes, where the financing costs of borrowing can be funded from revenue savings. However lack of capital resources means that it may also be used for other essential capital schemes where no other resources can be identified. As the repayment of principal is spread over the life of the asset it is most suitable for financing capital assets with long useful economic lives.

Government supported borrowing, where the government provides revenue support to meet some of the costs of repayment of principal and interest, is no longer available for new borrowing, having largely been replaced by grant funding.

The Council also makes use of operating and finance leases to fund some types of expenditure where these offer better value for money than straightforward purchase and capital financing. Examples of the types of assets that might be leased are IT equipment and office furniture.

The accounting treatment for operating and finance leases is very different. The annual costs of operating leases are treated as revenue expenditure in the accounts and are not included in the Council’s capital programme. In contrast, finance leases have to be treated as capital expenditure items in the Council’s accounts. Changes to accounting regulations mean that leases are increasingly being classified as finance leases.

2. Existing Borrowing

Existing borrowing to fund capital expenditure stands at £216m. The total value of HRA long-term external loans is £193m, corresponding to the March 2012 settlement payment to the CLG. The total amount of GF long-term external loans is £23m.

The following tables illustrate the debt type and maturity profile of existing borrowing as at 30 November 2012.

Analysis of Outstanding Long Term Debt as at 30 November 2012				
Type of Loan	**Principal £000**	**Proportion of Debt %**	**Range of Interest From %**	**To %**
Public Works Loan Board	190,000	88%	1.24%	3.97%
Money Market LOBO Loans	24,600	11%	4.85%	7.03%
Homes and Communities Agency*	1,170	1%	9.25%	9.25%
Total	**215,770**	**100%**		

Analysis of Outstanding Long Term Debt between HRA and GF as at 30 November 2012		
	Principal £000	**Proportion of Debt %**
HRA	193,000	89%
General Fund	22,770	11%
Total	**215,770**	**100%**

Long Term Debt Maturity Profile as at 30 November 2012			
Time Frame: Within -	**Year**	**Principal £000**	**Proportion of Debt %**
Within 12 months	2013-14	24,600	11%
1 -2 years	2014-15	22	-
2-5 years	2015-16 to 2017-18	10,080	5%
5-10 years	2018-19 to 2022-23	15,191	7%
10 - 20 years	2023-24 to 2032-33	40,758	19%
20 - 30 years	2033-34 to 2042-43	119	-
30 - 40 years	2043-44 to 2052-53	-	-
Over 40 years	2053-54 onward	125,000	58%
Total		**215,770**	**100%**

The figures exclude the HCA annuity principal due within one year, as this is treated as short term borrowing in the accounts.

The Treasury Management Code of Practice Guidance Notes requires that maturity should be determined by the earliest date on which the lender can require payment, which in the case of LOBO loans is the next break period. The Council's three LOBO loans are therefore shown above as maturing within the next 12 months. However in the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.

3. New Borrowing

The Council has access to Public Works Loan Board (PWLB) loans for its long term borrowing needs. Loans, including LOBO loans, may also be available from major banks via the money market, depending on market conditions, and these may be considered when they offer better value for money than PWLB loans.

Other forms of borrowing such as bonds or private placements, either acting alone or through a collective agency, may be considered if appropriate.

Decisions on the timing and type of borrowing are taken in consultation with the Council's external treasury management advisors.

In terms of the Council's normal business activity, under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years. The Council's policy on borrowing in advance of need is that this will not be undertaken purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

The Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

General Fund capital expenditure funded by borrowing has been given close consideration in order to reduce the impact on the revenue budget, and the Council's new borrowing needs can be managed within the constraints contained within the medium term financial strategy.

Existing GF debt totalling £17.6m will mature during the next three years; £15.6m in 2014-15 and £2m in 2016-17. Current budget assumptions are that on maturity these loans will be replaced with new 10 year PWLB maturity loans. However consideration will be given to funding some or all of the amounts from cash balances. The decision will be made at the appropriate time with reference to the prevailing market conditions and the Council's cash balances. Advice will be taken from the Council's treasury management advisers.

For new capital expenditure projects financed by borrowing it is anticipated that the borrowing requirement for the next three years will be met from internal rather than external borrowing – i.e. from cashflow surpluses.

4. Minimum Revenue Provision (MRP)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, requires local authorities to make 'prudent provision' for the repayment of its General Fund debt. This debt repayment is known as the Minimum Revenue Provision (MRP).

A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets for which the borrowing has been carried out.

Since 2007-08 the Council has used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.

The authority is required, under the 2008 regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council's policy statement on MRP for 2013-14 is set out in the following paragraphs.

> *The Council has implemented the 2008 CLG Minimum Revenue Provision (MRP) guidance from 2008-09 onwards, and assessed their MRP from 2008-09 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.*
>
> *MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the "regulatory method".*
>
> *The debt liability relating to capital expenditure incurred from 2008--09 onwards will be subject to MRP under option 3, the "asset life method", and will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.*
>
> *Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional*

circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner that reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council will seek to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts will be used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt will be based on the lives of the remaining asset for which borrowing was undertaken.

MRP will be charged from the financial year after the asset comes into use. In cases where the Council has approved the use of capital receipts to fund the asset, this funding will be assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge will be made.

Where finance leases are held on the balance sheet, the MRP will be set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

The Council will take advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.

Applying the policy as set out above, GF MRP for the next three years (including finance leases) is estimated at:

General Fund	**2013-14 £000**	**2014-15 £000**	**2015-16 £000**
Minimum Revenue Provision	1,011	1,095	1,134

The Housing Revenue Account is not subject to a mandatory MRP charge.

5. Borrowing Requirement

The Council's long-term new borrowing requirement for the next three years from 1 April 2013 is estimated at:

Long Term Borrowing Requirement Forecast	2013-14 £000	2014-15 £000	2015-16 £000
New borrowing to cover new capital expenditure	4,050	1,000	1,000
Replacement of loans maturing in year	0	15,600	2,000
Less			
Repayment of loans maturing in year	0	(15,600)	(2,000)
Debt repayment (MRP)	(1,011)	(1,095)	(1,134)
Total new borrowing/(provision for debt repayment)	**3,039**	**(95)**	**(134)**

6. Debt Rescheduling

As is the current practice, the debt portfolio will be kept under review throughout 2013-14 and beyond, with debt rescheduling opportunities being investigated for potential cash savings and / or discounted cash flow savings or to enhance the balance of the portfolio.

Changes to accounting regulations and to the structure of PWLB rates in recent years, together with the current interest rate market mean that rescheduling opportunities for the Council's PWLB loans are very much more limited than in the past, but decisions will be based on appropriate advice from the Council's external treasury management advisers. Current advice is that current interest rate profiles do not offer suitable opportunities for rescheduling. Any debt rescheduling will be reported to Cabinet at the meeting following its action

LOBO loans of £15.6m, 50% of the current debt portfolio, are due for repayment in 2014-15. The Council does not have the option to repay or reschedule these before the due date unless the lender opts to increase the interest rate. Repayment at maturity will be funded from internal borrowing, new loans, or a combination of both.

7. Long Term Interest Rates for Borrowing

Interest rates on offer for PWLB and Money Market loans fluctuate daily according to market conditions, and in accordance with movements on the gilt market.

From November 2012, PWLB have introduced a 'certainty rate' for local authorities that supply specified data about their borrowing plans to the CLG on an annual basis. This rate is set at 20 basis points below the PWLB standard new loan rate. Northampton Borough Council has access to loans at the new certainty rate.

The table below illustrates the forecast PWLB rates to March 2016. The forecasts are as provided by Sector Treasury Services Ltd at 20 November 2012.

Forecast Long Term Borrowing Rates - PWLB Maturity Loans		10 Years %	25 Years %	50 Years %
2013-14	June 2013	2.50	3.80	4.00
	Sept 2013	2.60	3.80	4.00
	Dec 2013	2.60	3.80	4.00
	March 2014	2.70	3.90	4.10
2014-15	June 2014	2.70	3.90	4.10
	Sept 2014	2.80	4.00	4.20
	Dec 2014	3.00	4.10	4.30
	March 2015	3.20	4.30	4.50
2015-16	June 2015	3.30	4.40	4.60
	Sept 2015	3.50	4.60	4.80
	Dec 2015	3.70	4.80	5.00
	March 2016	3.90	5.00	5.20

8. Sensitivity of Forecasts

In a normal interest rate environment the main sensitivities of the forecast and appropriate responses are likely to be the two scenarios below.

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be used whilst interest rates were still relatively cheap.
- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

The borrowing and investment market remains very subdued and uncertain at the present time.

No external borrowing is currently planned to support new capital expenditure in the next three years. Although borrowing rates are currently at extremely low levels, given the Council’s capital financing requirement and low level of borrowing need and its high levels of cash balances, it is more prudent to use cashflow balances to fund internal borrowing in the current environment of low investment returns. This is on the advice of the Council’s treasury advisers, taking into account the Council’s debt position and capital financing requirements.

Around 11% of the Council‘s existing long-term debt is in the form of Money Market LOBO (Lenders Option, Borrowers Option) loans. Officers consider that the risk of interest rate rises at break points on these loans is very low in the current interest rate environment.

Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts.

9. Borrowing Strategy

Internal borrowing is the management of cash flows, using funds from maturing investments within the financial year, to finance capital programme expenditure. As long term borrowing rates are currently higher than rates on investment income and look likely to remain so in the short term, this is a viable strategy. The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

External borrowing takes place when the Council borrows money from PWLB or the money markets. Once the affordability of external borrowing to finance capital programme funding requirements has been established and the balanced capital programme and revenue budgets approved, decisions about when to borrow are driven by the forecasts on interest rates. Advice is sought from the Council's treasury management advisors before entering into any long-term loan arrangements

All long-term external borrowing requires the express approval of the Chief Finance Officer, who should also sign any associated internal or external approval or authorisation documentation. The Chief Finance Officer has the delegated authority to take the most appropriate form of borrowing from approved sources.

There are benefits and risks to the use of internal and external borrowing. In the current interest rate environment these are as follows:

- Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short-term savings.
- However, short term savings by avoiding new long term external borrowing must also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when long term rates are forecast to be higher. Particular regard should be made to this factor in the current market, as interest rates on PWLB borrowing are at historic lows.

Over the three year planning horizon it is felt that the benefits of using internal funding from cash balances for new capital programme expenditure funded by borrowing outweigh the potential risks. This takes into account the Council's capital financing requirement, the level of new borrowing need, the levels of cash balances and the prevailing interest rates.

Replacement of existing borrowing has been budgeted on the assumption that external borrowing in the form of replacement PWLB maturity loans will be taken on maturity. However this will be re-evaluated taking into account all relevant factors at the appropriate time.

10. Prudential Indicators

The proposed prudential indicators that relate to the Capital Financing and Borrowing Strategy are set out below. These are included in a separate report to Cabinet - Prudential Indicators for Capital Finance 2013-14 to 2015-16. Full explanations for each of the indicators can be found in Appendix B of that report.

Gross debt and the capital financing requirement

This is the key indicator of prudence. It is intended to show that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and new two financial years.

Forecast debt for 2013-14 does not exceed the adjusted Capital Financing Requirement, as set out below.

Gross debt and the capital financing requirement	
	2013-14 £000
Gross external debt	216,129
2012-13 Closing CFR (forecast)	218,465
Increases to CFR:	
2012-13	3,039
2013-14	-
2014-15	-
Adjusted CFR	221,504
Gross external debt greater than adjusted CFR	No

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Authorised limit for total external debt

The proposed authorised limit for total external debt gross of investments for the forthcoming, and following two financial years is:

Authorised Limit for External Debt			
	2013-14 Limit £000	2014-15 Limit £000	2015-16 Limit £000
Borrowing	245,000	245,000	245,000
Other long-term liabilities	5,000	5,000	5,000
Total	**250,000**	**250,000**	**250,000**

Operational boundary for total external debt

The proposed operational boundary for total external debt for the forthcoming, and following two financial years is:

Operational Boundary for External Debt			
	2013-14 Boundary £000	2014-15 Boundary £000	2015-16 Boundary £000
Borrowing	235,000	235,000	235,000
Other long-term liabilities	5,000	5,000	5,000
Total	**240,000**	**240,000**	**240,000**

The borrowing element of the operational boundary has been set with reference to the maximum forecast Capital Financing Requirement (CFR) over the coming three years.

Other long-term liabilities, shown in both tables above, relate to finance leases and other credit arrangements (if applicable).

The authorised limit is set at an amount that allows a contingency for any additional unanticipated long or short-term borrowing requirements over and above the operational boundary during the period.

HRA Limit on Indebtedness

The local authority is required to report the level of the limit imposed (or subsequently amended) at the time of implementation of self-financing by the Department for Communities and local Government. It is the HRA capital financing requirement that is compared to this limit.

The HRA limit on indebtedness is £208.401m.

11. Treasury Indicators

The proposed treasury indicators that relate to the Capital Financing and Borrowing Strategy are set out below. These indicators were treated as prudential Indicators prior to 2010-11, but the revised codes and guidance now require them to be included in the Treasury Strategy as treasury indicators.

Maturity structure of borrowing

This represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months;
- 12 months and within 24 months;
- 24 months and within 5 years;
- 5 years and within 10 years;
- 10 years and within 20 years;
- 20 years and within 30 years;
- 30 years and within 40 years;
- 40 years and above.

This sets both upper and lower limits with respect to the maturity structure of the Council's borrowing.

The Treasury Management Code of Practice Guidance Notes requires that the maturity is determined by the earliest date on which the lender can require payment, which in the case of LOBO loans is the next break period. However in the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.

The proposed limits for the forthcoming year are:

Maturity Structure of Borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	20%
Between 1 and 2 years	0%	20%
Between 2 and 5 years	0%	20%
Between 5 and 10 years	0%	20%
Between 10 and 20 years	0%	40%
Between 20 and 30 years	0%	60%
Between 30 and 40 years	0%	80%
Over 40 years	0%	100%

Risk – The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

The limits for the early periods (up to 10 years) have been set to allow for up to 20% of Council borrowing to be in the form of LOBO loans, which are treated as if maturing at the first break clause date.

Upper limits on interest rate exposures

The Council must set for the forthcoming financial year and the following two financial years, upper limits to its exposure to the effect of changes in interest rates. These limits relate to both fixed interest rates and variable interest rates, and are referred to as the upper limits on fixed interest rate and variable interest rate exposures.

The purpose of the indicator is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates, as in the case of LOBOs.

These limits can be expressed either as absolute amounts or as a percentage. They may be related either to the authority's net principal sum outstanding on its borrowing/investments or to the net interest on these.

As a result of advice from the Council's treasury advisors, these indicators have been set as percentages rather than absolute values. Separate indicators are set and monitored for debt and investments, as well as for the net borrowing position.

It is proposed to maintain the upper limits on interest rate exposures for borrowing at 100% for both fixed and variable rate debt. This will allow officers to make judgements on the most appropriate form of borrowing dependant on the market conditions and rates on offer, rather than being artificially constrained by the indicator. In practice there is likely to be a mix of fixed and variable rate borrowing in the Council's debt portfolio.

Upper limits on interest rate exposures - borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2013-14	100%	100%
2014-15	100%	100%
2015-16	100%	100%

The interest rate exposures for net borrowing are distorted when debt and investment are combined. However, this combined indicator is included here for completeness, and as required by the Treasury Management Code of Practice. The percentages in the table below allow for both borrowing and investments to independently reach limits of 100% for both fixed and variable rates. Actual percentages on net borrowing may sometimes be in excess of 100% or below zero (ie negative percentages).

Upper limits on interest rate exposures – net borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2013-14	150%	150%
2014-15	150%	150%
2015-16	150%	150%

The proposed treasury indicators for upper limits on interest rate exposures for investments are set out at Section 24 below.

12. Affordable Borrowing Limit

The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the "Affordable Borrowing Limit". This is equivalent to the authorised limit at Section 9 above.

Affordable Borrowing Limit		
2013-14 Limit £000	2014-15 Limit £000	2015-16 Limit £000
250,000	**250,000**	**250,000**

Cabinet are asked to recommend to Council that they approve the Affordable Borrowing Limits for 2013-14 to 2015-16.

13. Temporary Borrowing

The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position. The maximum amount of temporary borrowing that the Council will borrow from any one counterparty will be £5m.

In addition, under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements were set up with these organisations in April 2009. These contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%
- Quarterly review of interest rates
- Withdrawal notice periods of 7 days
- Termination notice of 7 days

The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

14. Overdraft Facilities

The Council has a £200k overdraft facility with its bankers, HSBC Bank, for which an annual fee of £2,000 applies. The overdraft rate applicable to use of the agreed facility is 3% above base rate.

The overdraft facility is only used to cover unforeseen events; usage is kept to an absolute minimum and generally occurs only as a result of events outside of the Council's control; for example, failure by third parties to make agreed payments. The use of the overdraft facility is monitored on a daily basis against a performance target and reported monthly to senior managers through the corporate performance reporting framework.

Investment Strategy

15. Current Investment Portfolio

The investment portfolio as at 30 November 2012, including deposit and call accounts and money market funds, was as follows:

Counterparties at 30 November 2012	£m	%
UK nationalised or part nationalised banking institutions	33.00	55.90%
Other UK counterparties	0.05	0.09%
Overseas counterparties having sovereign ratings of AAA	5.00	8.47%
AAA rated Money Market Funds	20.98	35.54%
Total	**59.03**	**100%**

16. Specified/Non specified Investments

Under the Local Government Act 2003 the Council is required to have regard to the CLG revised Guidance on Local Government Investments issued in 2010 and CIPFA's Treasury Management in the Public Services Code of Practice (Fully Revised Second Edition 2009) and updated Guidance Notes (Fully Revised Third Edition 2009).

The CLG Guidance on Local Government Investments requires that investments are split into two categories:

(i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.

(ii) Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.

The detailed conditions attached to each of these categories are set out in the Schedules to the TMPs at Appendix E (TMP4 Approved Instruments, Methods and Techniques).

17. Investment Strategy

The Council's appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the Schedules to the Treasury Management Practices and the Treasury Management Strategy.

Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

The Council's counterparty and credit risk management policies are set out at the Schedule to the TMP 1 Risk Management (Credit and counterparty risk management) and its approved instruments for investments are set out at the Schedule to TMP 4 Approved Instruments, Methods and Techniques. These, taken together, form the fundamental parameters of the Council's Investment Strategy.

The Council defines high credit quality in terms of investment counterparties as those organisations that:

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisers (ie have a colour rating) and,
- Have sovereign ratings of AAA, or are
- UK nationalised or part nationalised banking institutions, or are
- UK banks or building societies supported by the UK banking system support package or are
- UK national or local government bodies or are
- Triple A rated Money Market funds

Specified Investments

The majority of the Council's investments in 2013-14 will fall into the category of specified investments.

Further counterparty limits may be put in place to minimise risk to the authority (see Section 17 below)

Non-Specified Investments

Prior to the start of each financial year officers review which categories of non-specified investments they consider could be prudently used in the coming year.

The officer recommendation for 2013-14 is that the following non specified investments may be entered into:

1. Long-term investments (those for periods exceeding 364 days), which could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management.

   Amounts deposited for over 364 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits.

Only counterparties in the Council's current approved counterparty list that have limits of over 364 days will be used for such investments.

Any overall stricter limits in force in the Council's investment counterparty policies at any time will take precedence.

The maximum amount that the Council will hold at any time during the year as long-term investments is £16m.

2. The following items, being non-specified only by virtue of unfamiliarity on the part of the Council's treasury management staff:

- Certificates of Deposit (trading in the secondary market)
- Gilts
- Treasury Bills

Before proceeding with any of the above treasury management staff will undertake, for each investment type, a risk assessment and put in place procedures and limits for controlling exposure, to be approved by the CFO.

The CFO and the treasury management staff will ensure that they:

- Fully understand how the investment product works
- Fully understand what degree of risk exposure the product has
- Are comfortable that it is a suitable product that meets the risk appetite of the authority
- Ensure that the product complies with the latest edition of the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
- Ensure that they are fully satisfied with the level of security of the product
- Apply value for money principles to optimise investment returns

All non-specified investments are subject to an evaluation of counterparty and other risk. Advice will be taken from the Council's external treasury advisors as appropriate

Capital Expenditure

The Council may make loans to third parties for the purpose of capital expenditure as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146)

18. Counterparties

Policies for the management of counterparty and credit risk are set out at Section 1 of the Schedule to TMP 1, attached to the accompanying Cabinet report at Appendix E.

The Council's approach to counterparties for 2013-14 is set out below:

Appendix F

The Chief Finance Officer (CFO) will use the recommendations of the creditworthiness service provided by the Council's external treasury advisers to determine suitable counterparties and the maximum period of investment, using the ratings assigned.

The CFO will determine, in the context of the above, and taking into account appropriate risk management factors:

- Any further criteria to be put in place to determine suitable counterparties
- The maximum investment amount to be held with each type of counterparty assigned a rating
- The maximum investment period with each type of counterparty assigned a rating

The following table sets out the Council's counterparty policies for 2013-14.

Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria:		**Additional limits**
(1)	UK counterparties	NBC **additional limits** in force will be £15m and a maximum of 2 years (729 days)
	Or	
(2)	UK nationalised or part nationalised banking institutions	NBC **additional limits** in force will be £20m and a maximum of 2 years (729 days)
	Or	
(3)	Non UK counterparties having a sovereign rating of AAA	NBC **additional limits** in force will be £15m and a maximum of 2 years (729 days)

A schedule is attached at Appendix G of counterparties that meet the criteria above as at 30 November 2012. This schedule is at a particular point in time and is subject to change according to changes in credit ratings and other economic and market data. Maximum investment periods will also vary for individual counterparties for the same reasons. The inclusion or exclusion of counterparties from this schedule is entirely a reflection of the Council's investment criteria, which may differ from those of other organisations.

It should be noted that the inclusion of counterparties in a counterparty list does not necessarily mean that they will be in the market for investment deals at any one point in time.

For the purposes of setting limits, institutions within the same banking group (eg Lloyds Banking Group) will be treated as a single counterparty.

Investments may also be placed with other local authorities and with the UK Government. The limits will be £20m, for periods of up to 2 years.

Investments may also be placed with triple A rated Money Market Funds. The limit for each fund will be £15m.

Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is added by the counterparty to the principal investment amount, for example in the case of some call and deposit accounts. In such instances the interest amounts will be withdrawn back to the Council’s main bank account as soon as reasonably practicable.

The maximum percentage of the portfolio that may be placed with overseas counterparties at any one time is 50%.

Any types of investments that fall within the category of specified investments as set out in the schedule to TMP 4, and any types of non-specified investments approved as part of this document (Section 16 above) may be made, within the bounds of the counterparty policies.

Deposits may be placed with the Council’s own bankers, HSBC Bank. Balances will generally be relatively low, at between £50k and £600k on a given day, and are determined by cashflow requirements and with regard to the costs and benefits of CHAPS payments compared with investment returns achievable. Amounts of up to £15m may be placed for longer periods for operational purposes should the need arise.

The Chief Financial Officer has discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments. At all times the Council’s minimum level of credit risk, as set out at the Schedule to TMP 1, will be met.

The total value of investments over 364 days at any one time is restricted by the treasury indicator for the upper limit on investments for periods longer than 364 days (See Section 24 below). For 2013-14 this is £16m.

19. Liquidity of Investments

Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council’s liabilities.

Investment periods range from overnight to 364 days as specified investments or 2 years as a non-specified investment.

When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates.

The range of duration for each new fixed term investment in 2012-13, as at 30 November 2012 was from 74 to 730 days. The average term was 219 days.

For short term and overnight investment the Council makes full use of triple A rated Money Market Funds and appropriate bank call and deposit accounts offering competitive rates and, in most instances, instant access to funds.

As referred to in Section 17 and Section 24, maximum values have been set for the amounts that can be invested for periods exceeding 364 days and up to 2 years. Actual amounts deposited for over 364 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits.

20. Bank Base Rates

The bank base rate has been held steady at its current all-time low of 0.50% since March 2009, whilst the Bank of England has pursued alternative strategies, including quantitative easing and the 'funding for lending' scheme.

The current interest rate view of Council's treasury management advisors (as at 20 November 2012) is that bank base rate will remain at 0.50% until the first quarter of 2015. The rate is then forecast to rise by 0.25% each quarter, reaching 1.75% by March 2016. However, if there were to be a major Eurozone disaster, then there are likely to be further revisions to when the bank base rate would be likely to start to increase.

The table below shows the Council's treasury advisors forecast bank base rates for 2013 to 2015 (as at 20 November 2012)

Bank Base Rates 2013 to 2015		%
2013-14	Forecast - June 2013	0.50
	Forecast - Sept 2013	0.50
	Forecast - Dec 2013	0.50
	Forecast - March 2014	0.50
2014-15	Forecast - June 2014	0.50
	Forecast - Sept 2014	0.50
	Forecast - Dec 2014	0.50
	Forecast - March 2015	0.75
2015-16	Forecast - June 2015	1.00
	Forecast - Sept 2015	1.25
	Forecast - Dec 2015	1.50
	Forecast - March 2016	1.75

21. Short Term Interest Rates for Investments

Short-term interest rates for investments tend to be linked to the bank base rate levels; in the current economic climate these are abnormally low, and forecast to remain so for some time.

The Council's treasury advisors have advised that the Council should budget for an investment return of 0.50% on investments placed for around three month's duration during 2013-14. Taking into account the fact that a proportion of the portfolio is invested for periods of up to 364 days at a higher rate of return the Council has set its budget based on a total average investment return of 1.00% in 2013-14. This compares with a rate of return of 0.70% budgeted in 2012-13. Actual return as at 30 November 2012 was 1.27%.

At an average forecast balance of £46m, the variance in income per 0.1% increase or decrease in interest rates equates to £46k. As some of the cash being invested relates to HRA balances, a proportion of the impact is passed on to the HRA; the remaining balance accrues to the General Fund budget.

The impact of the interest rate forecast has been included in the 2013-14 debt-financing budget, included in the Council Wide General Fund Revenue Budget 2013-14 to 2015-16 report to Cabinet.

22. Sensitivity of Forecasts

The amount that can be earned on interest on investments is very sensitive to changes in cash balances and in the prevailing market conditions. Interest rates are at historically very low rates, having undergone a further downward trend in Autumn 2012.

Officers, in conjunction with the Council's treasury advisors, will continually monitor both the prevailing interest rates and market forecasts, taking corrective action as required.

Any impact on the debt-financing budget of changes in forecast returns will be reported to Cabinet as part of the monthly revenue budget monitoring reporting.

23. Prudential Indicators

There are no prudential indicators that relate specifically to the Investment Strategy.

24. Treasury Indicators

The proposed treasury indicators that relate to the Investment Strategy are set out below.

Upper limits on interest rate exposures

The Council must set for the forthcoming financial year and the following two financial years, upper limits to its exposure to the effect of changes in interest rates. These limits relate to both fixed interest rates and variable interest rates, and are referred to as the upper limits on fixed interest rate and variable interest rate exposures.

The purpose of the indicator is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as liquidity, as in, for example, deposit accounts and money market funds.

These limits can be expressed either as absolute amounts or as a percentage. They may be related either to the authority's net principal sum outstanding on its borrowing/investments or to the net interest on these.

As a result of advice from the Council's treasury advisors, these indicators have been set as percentages rather than absolute values. Separate indicators will be set and monitored for debt and investments, as well as for the net borrowing position.

It is proposed to maintain the upper limits on interest rate exposures for investments at 100% for both fixed and variable investments. This will allow officers to make judgements on the most appropriate form of investment dependant on the market conditions and rates on offer, rather than being artificially constrained by the indicator. In practice there is likely to be a mix of fixed and variable rate investments in the Council's investment portfolio.

Upper limits on interest rate exposures - investments		
	Fixed Interest Rate Exposures £000	Variable Interest Rate Exposures £000
2013-14	100%	100%
2014-15	100%	100%
2015-16	100%	100%

The proposed treasury indicators for upper limits on interest rate exposures for borrowing and net borrowing are set out at Section 11 above.

Total principal sums invested for periods longer than 364 days

Under the Local Government Act 2003 and the CLG Guidance on Local Authority Investments 2004 (revised 2010), all Councils are permitted to invest for periods exceeding 1 year (or 364 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent method and the more straightforward to monitor.

The limit has been set at a level that would allow for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable.

The proposed limits for the forthcoming, and following two financial years are as follows.

Upper limit on investments for periods longer than 364 days			
	2013-14 Upper Limit £m	2014-15 Upper Limit £m	2015-16 Upper Limit £m
General cash balances (HRA & GF)	6	7	7
HRA earmarked balances	10	10	10
Upper Limit	**16**	**17**	**17**

This upper limit has been calculated at a prudent level with regard to cashflow liquidity, based on a maximum of 15% of forecast average general (HRA & GF) cash balances in year, and an additional allowance for HRA earmarked reserves that may be generated for investment under the new HRA self financing regime.

25. Treasury Management Advisers

The Council uses treasury management advisers to support its treasury management activities.

The contract specification is set out in italics below:

To provide an effective and efficient treasury management advisory service to Northampton Borough Council

This to include:

Provision of General Information and Advice

- *Economic and interest rate forecasts*
- *Technical updates on investment and debt issues*
- *Interest rates and available options for investment and debt financing*
- *Investment counterparty creditworthiness based on clear parameters and latest available data*
- *Notification of changes to treasury legislation, regulation, best practices and procedures, and advice on the impacts of such changes*
- *Advice on treasury reporting formats and techniques, including standard templates*

By means of emails, phone calls, website access, and meetings as appropriate.

To meet agreed scheduled (daily, weekly, monthly and other) and ad hoc requirements

Provision of Tailor-made Information and Advice

- *Debt management and investment advice tailored to the Council's financial position and requirements*
- *Financial appraisal and balance sheet analysis*
- *Analysis of the Council's debt and investment strategy, with advice on any changes that could be beneficial*
- *Technical advice for specific issues when required*
- *Templates for treasury documents*

By means of emails, phone calls, website access, and meetings as appropriate.

To meet agreed scheduled (weekly, monthly and other) and ad hoc requirements

Training, Workshops and Seminars

- *Provision of regular scheduled training and/or seminars for the council's treasury staff*
- *Provision of ad hoc training to Council Members, treasury staff and others*

The current supplier of service is Sector Treasury Services Ltd. The contract commenced 1 April 2010 with an initial contract period of three years to 31 March 2013 and an option to extend for a further year to 31 March 2014

The costs of the service are provided for in the Council's annual revenue budget. Payments under the contract are currently based on a fixed fee, payable half yearly in arrears. Additional services are available at rates specified in the contract.

Contract monitoring is an ongoing process, having regard to the timeliness and quality of information and advice received. The contract monitoring process is supported by review meetings at six month intervals with the suppliers of service.

26. Investment Training

The Council's policies for reviewing and addressing the training needs of its treasury management staff for training in investment management are out at the Schedules to the TMPs at Appendix E (TMP10 – Staff training and qualifications)