Report No. FSD14011	**London Borough of Bromley**	**Agenda Item No.**

PART 1 - PUBLIC

Decision Maker:	**Resources Portfolio Holder** **Council**
Date:	**For pre-decision scrutiny by Executive and Resources PDS Committee on 5th February 2014** **Council 24th February 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**TREASURY MANAGEMENT - PERFORMANCE QUARTERS 2 & 3 2013/14 & PART-YEAR REVIEW**
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Chief Officer:	Director of Finance
Ward:	Alll

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1. Reason for report

1.1 This report summarises treasury management activity during the quarters ended 30th September and 31st December 2013 and the period 1st April 2013 to 31st December 2013. It also updates Members on the Council's investment with Heritable Bank (paragraph 3.15) and includes a Part-Year Review of the Treasury Management Strategy Statement and Annual Investment Strategy (Annex A). The report ensures that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management. Investments as at 31st December 2013 totalled £250.0m (excluding the balance of the Heritable investment) and there was no outstanding external borrowing.

RECOMMENDATION(S)

2.1 The PDS Committee and the Portfolio Holder are asked to:

(a) Note the report and

(b) Recommend that Council approve the changes to the 2013/14 prudential indicators, as set out in Annex B1.

Council is requested to:

(a) Note the report and

(b) Approve changes to the 2013/14 prudential indicators, as set out in Annex B1.

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A.

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: £1.591m (net) in 2013/14; currently forecast on target

5. Source of funding: Net investment income

Staff

1. Number of staff (current and additional): 0.25 fte

2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Call-in is applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments:

3. COMMENTARY

General

3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a part-year review report and an annual report following the year comparing actual activity to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year-end. This report includes a part-year review for 2013/14 and details of treasury management activity during the quarters ended 30th September and 31st December 2013 and the period 1st April 2013 to 31st December 2013. The 2014/15 annual strategy, including the MRP (Minimum Revenue Provision) Policy Statement and prudential indicators, is reported elsewhere on the agenda.

Treasury Performance in the quarters ended 30th September and 31st December 2013

3.2 **Borrowing:** The Council's healthy cashflow position continued through the whole of 2012/13 and through 2013/14 to date, as a result of which no borrowing has been required at all since 2010/11, when one small overnight loan (for £800k) was taken out (in March 2011).

3.3 **Investments:** The following table sets out details of investment activity during the September and December quarters and during the financial year 2013/14 to date:-

	Qtr ended 30/9/13		Qtr ended 31/12/13		1/4/13 to 31/12/13	
Main investment portfolio	**Deposits**	**Ave Rate**	**Deposits**	**Ave Rate**	**Deposits**	**Ave Rate**
	£m	**%**	**£m**	**%**	**£m**	**%**
Balance of "core" investments b/f	165.00	1.00	180.00	0.92	167.50	1.88
New investments made in period	65.00	0.68	55.00	0.89	152.50	0.75
Investments redeemed in period	-50.00	1.01	-55.00	1.55	-140.00	1.28
"Core" investments at end of period	180.00	0.92	180.00	0.79	180.00	0.79
Money Market Funds	21.00	para 3.10	18.90	para 3.10	18.90	para 3.10
RBS 95 day notice account	15.00	para 3.11	15.00	para 3.11	15.00	para 3.11
Svenska Handelsbanken instant access	15.00	0.60	15.00	0.60	15.00	0.60
Deutsche Bank 95 day notice	-	-	5.00	0.74	5.00	0.74
Standard Chartered Bank - Corporate Bond	-	-	1.10	0.70	1.10	0.70
Payden Sterling Reserve Fund	15.00	para 3.12	15.00	para 3.12	15.00	para 3.12
Total investments at end of period	**246.00**	**n/a**	**250.00**	**n/a**	**250.00**	**n/a**
Heritable deposit - frozen (para xxxx)					5.00	6.42

3.4 Details of the outstanding investments at 31st December 2013 are shown in maturity date order in Appendix 1 and by individual counterparty in Appendix 2. The average return on all new "core" investments was 0.68% during the September quarter and 0.89% during the December quarter which may be compared with the average 3 month LIBID rates of 0.39% and 0.40% respectively and the average 7 day rates of 0.36% and 0.35% respectively. The average rate achieved on new investments placed in the period 1st April to 31st December 2013 was 0.75%, compared to the average 3 month LIBID rate of 0.39% and the average 7 day rate of 0.36%.

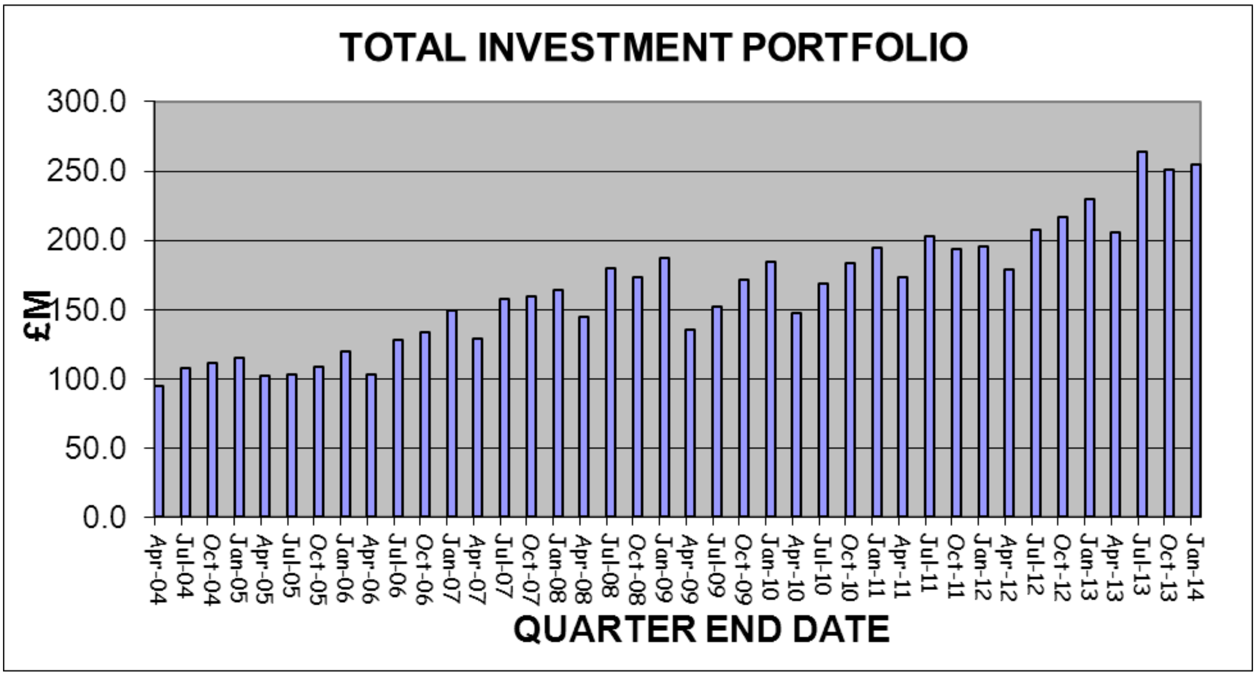
3.5 Base rate has now been 0.5% since March 2009 and the latest forecast by Sector (in late November) is for it to remain at that level until 2016. This is clearly also the view of the Bank of England, whose governor, Mark Carney, has said that the Bank will not consider raising interest rates until the jobless rate has fallen to 7% or below. This would require the creation of around 750,000 jobs and could take 3 years or more. The estimated date for the next increase in base rate has slipped back significantly in the last two years and it is possible that it will slip further. Reports to previous meetings, most recently to the September meeting, have highlighted the fact that options with regard to the reinvestment of maturing deposits have become seriously limited due to bank credit rating downgrades. Changes to lending limits and eligibility criteria have in the past been temporarily successful in alleviating this, but we are now back in the position of not having many investment options other than placing money with instant access accounts at relatively low interest rates. Active UK banks on our list now comprise only Lloyds TSB, RBS, HSBC, Barclays, Santander UK and Nationwide and all of these have reduced their interest rates significantly.

3.6 Our external advisers, Sector, continue to recommend caution and, between September 2011 and January 2013, were recommending that no investment be placed for longer than 3 months with any bank other than Lloyds and RBS (a maximum of 1 year was recommended in their case). In January 2013, however, they lifted their temporary investment duration cap due to a perceived improvement in market conditions, namely a reduction in some of the excess fears surrounding the continued existence of the Eurozone and improvements in liquidity in financial markets. Since then, we have been able to invest with some of our eligible UK counterparties for up to 6 months instead of 3, which will have had a small beneficial impact on interest earnings.

3.7 In recent quarters, in consultation with Sector, we have been looking at other options and have placed investments for periods between one and three years with a number of other local authorities. We have also opened a new account with Deutsche Bank (£5m in a 95-day notice account paying around 0.74%) and have made our first corporate bond investment, with Standard Chartered Bank (£1.1m at 0.70% maturing in April 2014). These investments are all included in Appendices 1 and 2. Since the end of the December quarter, we have agreed a further 3 year investment with another local authority (start date 26th March 2014 at 1.60%) and have invested for 6 months with a new counterparty, Goldman Sachs, at a rate of 0.74%, which was negotiated by Sector. While these rates do not sound particularly attractive, they are better than we are currently able to obtain for the same periods elsewhere in the market and are, in the view of Sector and other experts, likely to prove good deals in the fullness of time.

3.8 Lloyds TSB has consistently offered better rates than other UK banks, but has reduced its rates significantly in the last year and is currently offering 0.65% for 3 months up to 0.98% for 1 year (they were paying 3.00% for 1 year as recently as July 2012). All the other UK banks and building societies on our lending list are now paying around 0.47% for 3 months and around 0.56% for 6 months. The Director of Finance will continue to monitor rates and counterparty quality and take account of external advice prior to any investment decisions.

3.9 The graph below shows total investments at quarter-end dates back to 1st April 2004 (including the Heritable deposit) and shows how available funds have increased steadily over the years, largely due to increased and earlier government funding. This has been a significant contributor to the over-achievement of investment income against budget in recent years, although this has now been fully factored into the revenue budget.



Other accounts

3.10 Money Market Funds

The Council currently has 7 AAA-rated Money Market Fund accounts, with Prime Rate, Ignis, Insight, Morgan Stanley, Blackrock, Fidelity and Legal & General, all of which have a maximum investment limit of £15m. In common with market rates for fixed-term investments, interest rates on money market funds have fallen considerably in recent years. The Ignis fund currently offers the best rate (around 0.44%), which is only slightly below the level currently being offered for 3 months by most of our eligible UK banks and building societies. The total balance held in Money Market Funds has fluctuated considerably during the year, moving from £6.1m as at 1st April 2013 to £64.1m as at 30th June 2013, £21.0m as at 30th September 2013, £18.9m as at 31st December 2013 and £43.1m as at 21st January 2014. If and when other investment options become available, this balance will reduce, as Money Market Funds currently offer the lowest interest of all our eligible investment vehicles with the exception of the Government Debt Management and Deposit Fund (currently 0.25%).

Money Market Fund	Date Account Opened	Ave. Rate 2013/14 %	Ave. Daily Balance 2013/14 £m	Actual Balance 31/12/13 £m	Actual Balance 21/01/14 £m	Current Rate 21/01/14 %
Prime Rate	15/06/2009	0.42	10.0	3.9	15.0	0.41
Ignis	25/01/2010	0.43	11.5	15.0	15.0	0.44
Insight	03/07/2009	0.39	6.2	-	-	0.40
Morgan Stanley	01/11/2012	0.41	6.8	-	13.1	0.40
Legal & General	23/08/2012	0.34	2.2	-	-	0.34
Blackrock	16/09/2009	0.31	0.1	-	-	0.31
Fidelity	20/11/2002	n/a	-	-	-	0.30
TOTAL			36.8	18.9	43.1	

3.11 Notice Accounts

Svenska Handelsbanken

In August 2013, the Council placed £15m in a new instant access account with the Swedish Bank, Svenska Handelsbanken. The account pays 0.60% and the £15m is still invested as at 21st January 2014. The average daily balance to date in 2013/14 is £6.8m.

RBS

In March 2013, RBS announced a new 95-day notice account paying a rate of 0.80%. The Council made an initial deposit of £12.5m in March and increased this to £15m in April 2013. The rate was reduced to 0.60% in October 2013, but the £15m remains invested as at 21st January 2014. The average daily balance to date in 2013/14 is £12.0m and an average rate of 0.74% has been earned in the year to date.

Deutsche Bank

In the autumn of 2013, Sector notified the Council that they had negotiated a 95-day notice account facility with Deutsche Bank at a rate of 0.75%. Deutsche is an eligible counterparty on our lending list with a maximum investment sum of £5m and, on 25th November 2013, this sum was deposited.

3.12 Corporate Bonds and Payden Sterling Reserve Fund

At its meeting on 12th November 2012, the Council approved the addition of corporate bonds (minimum credit rating AA-, maximum period 5 years) and the Payden Sterling Reserve Fund to our lending list. On 27th November, following advice from Sector, we made our first investment in a corporate bond, with Standard Chartered Bank. The bond has a maturity date on 28th April 2014 and a coupon value of 0.70%. In November 2012, £15m was invested in the Payden Fund and that sum is still invested as at 21st January 2014. The longer-term nature of the Payden Fund means that a better return will be secured by holding to maturity, although we could at any time withdraw our money by giving 3 days' notice. As at 31st December 2013, our share of the Payden Sterling Reserve Fund was valued at £15,114,428, which represented a return of 0.68% since inception.

3.13 External Cash Management

External cash managers, Tradition UK Ltd, currently manage £20m of our cash portfolio and provide useful advice and information on treasury management matters. In 2012/13, Tradition UK achieved a return of 1.53% (mainly as a result of two longer term investments placed with Lloyds TSB in August 2011 and July 2012, when rates were around 3%, both of which matured in the 2nd quarter of 2013/14). Tradition UK work to the same counterparty list as the Council's in-house team and so have also been constrained by strategy changes approved after the Icelandic Bank crisis and by recent ratings downgrades. Details of externally managed funds placed on deposit as at the time of writing this report are shown below. Since the end of the December quarter, Tradition UK have been looking at options for future investments, with particular focus on the maturity of £12.5m due on 26th March 2014. As a result, £2.5m has been invested for three years out of that date with another local authority at a rate of 1.60%.

Bank	Sum	Start Date	Maturity	Period	Rate
HSBC	£12.5m	26/03/13	26/03/14	1 year	0.65%
Lloyds TSB	£2.5m	04/07/13	04/07/14	1 year	1.01%
Lloyds TSB	£5m	16/08/13	18/08/14	1 year	1.01%

3.14 Investment in CCLA Property Fund

In September 2013, the Portfolio Holder and Full Council approved the inclusion of collective (pooled) investment schemes as eligible investment vehicles in the Council's Investment Strategy with an overall limit of £25m and a maximum duration of 5 years. Such investment would require the approval of the Director of Finance in consultation with the Resources Portfolio Holder. The Council has yet to invest in such funds, but, following consultation between the Director of Finance and the Resources Portfolio Holder, an account is shortly to be opened with the CCLA Local Authorities' Property Fund and it is expected that an initial deposit of £5m will be made at the end of January. This will be included in future quarterly monitoring reports.

3.15 Investment with Heritable Bank

Members will be aware from regular updates to the Resources Portfolio Holder and the Executive that the Council had £5m invested with the Heritable Bank, a UK subsidiary of the Icelandic bank, Landsbanki, when it was placed in administration in early-October 2008 at which time our investment was, and still is, frozen. An initial dividend was paid to the Council in July 2009 and, since then, a further 13 dividends have been received. To date, 94.0% (£4,783k) of our total claim (£5,087k) has been returned to us, leaving a balance of £304k (6.0%). Council officers and our external advisers remain hopeful of a full recovery.

For information, the claim we were obliged to submit consisted of the principal sum (£5m) plus interest due to the date on which Heritable was placed in administration (around £87,000). We were not able to lodge a claim for the full amount of interest (£321,000) that would have been due at the original investment maturity date (29/6/09). In accordance with proper accounting practice and guidance from CIPFA, we made provision in our 2008/09 accounts for an impairment loss of £1.64m and met this from the General Fund in that year. In line with revised guidance from CIPFA relating to the 2009/10 accounts, we were able to reduce the impairment by £300k and this sum was credited to the General Fund. An improvement in the administrator's recovery estimate in 2011 to between 86% and 90% (previously it was between 79% and 85%) enabled us to reverse a further £730k of the impairment in 2011/12. The Council's accounts include a provision for a net loss of £610k as at 31st March 2013 (12% of the claim, based on the midpoint of the administrator's estimate), but, as we have now recovered 94%, we will be able to reverse more of the impairment in 2013/14 (around £300k). We are currently waiting for an update from the administrator.

Part-Year Review of Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14

3.16 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required to receive a part-year review report on performance against the approved strategy. The Annual Investment Strategy was approved by Council in February 2013 and a part-year review is included at Annex A.

Regulatory Framework, Risk and Performance

3.17 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.18 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 An average rate of 1% has been assumed for interest on new investments in the 2013/14 revenue budget, in line with the estimates provided by the Council's external treasury advisers, Sector, earlier in the year and with officers' views. The Bank of England base rate is still expected to rise, but the expected start of the rise has been put back to 2016 and could be even later. The latest financial forecast assumes 1% for new investments in all years from 2014/15 to 2017/18. A variation of 0.25% in these assumptions would result in a variation in interest earnings of around £400k pa from 2014/15. At this stage in the year, it is forecast that the 2013/14 outturn will be broadly in line with the budget. As is stated in paragraph 3.15, however, the Council will have the option of reversing around £300k of the impairment loss on the Icelandic Bank (Heritable) investment that is in our 2012/13 accounts (provision for an overall impairment loss of £610k). If actioned in 2013/14, this will increase interest earnings in 2013/14 by £0.3m.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Sector Treasury Services

ANNEX A

Treasury Management Strategy Statement and Annual Investment Strategy

Part-year Review Report 2013/14

1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives. In practice, the Council has not in the past borrowed to finance its capital expenditure and has no plans to do so at present.

As a consequence treasury management is defined as:

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

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was adopted by this Council in February 2013.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Part-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Executive & Resources PDS Committee:

This part-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first nine months of 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2013/14;
- A review of the Council's borrowing strategy for 2013/14;
- A review of any debt rescheduling undertaken during 2013/14;
- A review of compliance with Capital and Treasury Prudential Limits for 2013/14.

3 Economic update

3.1 Economic background

- After strong UK growth of 0.7% in quarter 2 and 0.8% in quarter 3, it appears that UK GDP is likely to have grown at an even faster pace in quarter 4 of 2013. Forward surveys are also very encouraging in terms of strong growth and there are positive indications that recovery is broadening away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC before it said it would consider any increases in Bank Rate, than it expected last August when that threshold was initially set. Accordingly, markets are expecting a first increase in early 2015 though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in real incomes, before they would consider raising Bank Rate.
- Also encouraging has been a sharp fall in inflation (CPI) to 2.1% in November and forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and fostered optimism for achieving a balance in the cyclically adjusted budget within five years, a year earlier than previously forecast.
- The big news in financial markets was that the Federal Reserve, in December, felt sufficiently confident that the premise for strong growth had been established in America that it could start to taper its asset purchases by reducing them by $10bn per month from January 2014. These encouraging growth scenarios in the USA and UK led to a sharp jump up, in December, in short dated gilts; this, accordingly, impacted 5 and 10 year PWLB rates.

3.2 Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

SUMMARY OUTLOOK

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market, Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. Labour productivity must improve significantly before increases in pay rates are warranted. With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by this Council in February 2013. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cashflow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information.

5 Investment Portfolio 2013/14

As is set out in Section 3 (Economic Update), it continues to be a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

Details of the Council's investment activity during the first nine months of 2013/14 are provided in paragraphs 3.3 to 3.13 of the covering report and lists of current investments are provided in Appendices 1 (in maturity date order) and 2 (by counterparty). Excluding the frozen Heritable investment of £5m, the Council held £250.0m of investments as at 31st December 2013 (£201.1m as at 31st March 2013).

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2013/14.

The Council's budgeted investment return for 2013/14 is £1.591m, and performance for the year to date is broadly in line with the budget.

6 Borrowing

The Council's capital financing requirement (CFR) as at 1st April 2013 was £3.8m. The CFR denotes the Council's underlying need to borrow for capital purposes and, for Bromley, relates to outstanding finance lease liabilities in respect of plant, equipment and vehicles. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council does not borrow to finance its capital expenditure and has, in recent years, only had to borrow short-term (for cashflow purposes) on a very few occasions.

No borrowing is currently anticipated during this financial year or in any later financial year.

Prudential and Treasury Indicators – Part-Year Review 2013/14

The old capital control system was replaced in April 2004 by a prudential system based largely on self-regulation by local authorities themselves. At the heart of the system is The Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. The Code requires the Council to set a number of prudential indicators designed to monitor and control capital expenditure, financing and borrowing. The indicators for 2013/14 were approved by the Executive and the Council in February 2013 and this Annex sets out the actual performance against those indicators in the first nine months, updating them where necessary. Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy.

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted by the full Council in February 2002 and the revised 2011 Code was adopted by full Council in February 2013.

Prudential Indicators for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the Capital Programme for 2013/14 was agreed in February 2013. The increase in the latest estimate for 2013/14 is mainly the result of the significant level of slippage in expenditure planned for 2012/13 and to the approval of additional investment property acquisitions, both of which have been highlighted in previous reports to the Executive and to PDS Committees.

Capital Expenditure by Portfolio	**2013/14 Original Estimate £m**	**2013/14 Revised Estimate £m**
Education	12.0	12.8
Renewal & Recreation	4.8	6.3
Environment	7.8	8.9
Care Services	8.8	5.0
Resources	3.0	14.0
Less: estimated slippage	-5.0	-5.0
Total	**31.4**	**42.0**

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

Capital Expenditure	**2013/14 Original Estimate £m**	**2013/14 Revised Estimate £m**
Supported	31.4	42.0
Unsupported	0.0	0.0
Total spend	**31.4**	**42.0**
Financed by:		
Capital receipts	4.8	4.4
Capital grants	12.6	9.6
Other external contributions	8.9	11.3
Revenue contributions	5.1	16.7
Total financing	**31.4**	**42.0**
Borrowing need	**0.0**	**0.0**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits", which comprise external / internal borrowing and other long-term liabilities, mainly finance leases. The Council's approved Treasury and Capital Prudential Indicators (affordability limits) are outlined in the approved TMSS. The table below shows the expected "worst case" debt position over the period. This is termed the Operational Boundary. Bromley has an operational "borrowing" limit (Operational Boundary) of £30m, although in practice, this limit is never in danger of being breached.

The Authorised Limit, which represents the limit beyond which borrowing is prohibited, is another of the prudential indicators and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and, for Bromley, this figure has been set at £60m.

The table also shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The Council's capital financing requirement (CFR) as at 1st April 2013 was £3.8m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council's CFR relates to liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment. The Council currently has no external borrowing as such.

Prudential Indicators	**2013/14 Original Estimate £m**	**2013/14 Revised Estimate £m**
CFR	**3.0**	**3.5**
Debt – Operational Boundary		
Borrowing	10.0	10.0
Other long-term liabilities	20.0	20.0
Total Operational Boundary	**30.0**	**30.0**
Debt – Authorised Boundary		
Borrowing	30.0	30.0
Other long-term liabilities	30.0	30.0
Total Operational Boundary	**60.0**	**60.0**

Other Prudential Indicators

Other indicators designed to control overall borrowing and exposures to interest rate movements are included in the summary table below, which will require the approval of full Council.

ANNEX B1 Prudential and Treasury Indicators - Summary

	2013/14	2013/14
	Original Estimate	Revised Estimate
	£m	£m
Total Capital Expenditure	£31.4m	£42.0m
Ratio of financing costs to net revenue stream	-2.0%	-1.5%
Net borrowing requirement (net investments for Bromley)		
brought forward 1 April	£176.6m	£197.3m
carried forward 31 March	£179.8m	£200.0m
in year borrowing requirement (reduction in net investments for Bromley)	-£3.2m	-£2.7m
Estimated CFR as at 31 March (finance lease liability)	£3.0m	£3.5m
(NB. Actual CFR as at 31 March 2013 (finance lease liability) = £3.8m)		
Annual change in Cap. Financing Requirement	-£0.3m	-£0.3m
Incremental impact of capital investment decisions	**£ p**	**£ p**
Increase in council tax (band D) per annum	-	-

TREASURY MANAGEMENT INDICATORS	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
Authorised Limit for external debt -		
borrowing	£30.0	£30.0
other long term liabilities	£30.0	£30.0
TOTAL	£60.0	£60.0
Operational Boundary for external debt -		
borrowing	£10.0	£10.0
other long term liabilities	£20.0	£20.0
TOTAL	£30.0	£30.0
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	20%	20%
Upper limit for total principal sums invested beyond year-end dates	£80.0	£136.6