Report No. **FSD14067**	**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 19th November 2014** **Council 8th December 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**TREASURY MANAGEMENT - PERFORMANCE Q2 2014/15 & MID-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 quarter ended 30th September 2014 and the period 1st April 2014 to 30th September 2014. It also updates Members on the Council's investment with Heritable Bank (paragraphs 3.19 and 3.20) and includes a Mid-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 30th September 2014 totalled £264.9m (excluding the balance of the Heritable investment) and there was no outstanding external borrowing. For information and comparison, the balance of investments stood at £287.2m as at 30th June 2014 and £246.0m as at 30th September 2013 and, at the time of writing this report (5th November) it stood at £286.7m.

RECOMMENDATION(S)

2.1 The PDS Committee and Portfolio Holder are asked to note the report and recommend that Council approve the changes to the 2014/15 prudential indicators, as set out in Annex B1.

2.2 Council is requested to note the report and approve changes to the 2014/15 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 interest earnings) in 2014/15; currently forecast to be £0.8m over budget

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 mid-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 mid-year review for 2014/15 and details of treasury management activity during the quarter ended 30th September 2014 and the period 1st April 2014 to 30th September 2014. The 2014/15 annual strategy, including the MRP (Minimum Revenue Provision) Policy Statement and prudential indicators, was originally approved by Council in February 2014. Amendments (comprising an increase in the limits for part-nationalised banks, Lloyds and RBS, a lowering of the minimum credit rating for bond investments and the inclusion of diversified growth funds as permitted investments) were approved by Council in October 2014. The annual report for the financial year 2013/14 was approved by the Council in July 2014.

3.2 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.3 The Council has monies available for Treasury Management investment for the following main reasons:

(a) Positive cash flow;
(b) Monies owed to creditors exceed monies owed by debtors;
(c) Receipts (mainly from Government) received in advance of payments being made;
(d) Capital receipts not yet utilised;
(e) Provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised;
(f) General and earmarked reserves retained by the Council.

3.4 Some of the monies identified above are of short term use and cannot be used for longer term investment purposes and any investment of these needs to be highly "liquid", particularly if it relates to a positive cash flow position which can change in the future. Future monies available for Treasury Management investment will depend on the budget position of the Council and whether the Council will need to substantially exhaust capital receipts and reserves. Against a backdrop of unprecedented cuts in Government funding (which will require the Council to make revenue savings to balance the budget in future years), there is a probability that such actions may be required in the medium term which will reduce the monies available for investment.

3.5 The Council has approved an Investment Strategy for Treasury Management, which has been regularly reviewed in recent years to provide a wider range of investment options, ranging from investment in corporate bonds to various investment choices over a 3 to 5 year timeframe, including investments in a property fund and in Diversified Growth Funds. The CIPFA Code of Practice states that priority must be given to security and liquidity over the return on investments. Any "wholesale" investment made by the Council does not have the protection available to personal savers.

3.6 The Council has also identified an alternative investment strategy relating to property investment. Further details were provided in September when the PDS Committee was informed that the planned property purchases, including purchases to date, will generate income of £2m per annum with an equivalent yield of 5 to 6%. This is based on a longer term investment timeframe of at least 3 to 5 years. This alternative investment ensures that the monies available can attract higher yields for the longer term.

3.7 A combination of lower risk investment relating to Treasury Management and a separate investment strategy in property acquisitions generating higher yields (and risks) provides a balanced investment strategy. Any investment decisions will also need to consider the high probability that interest rates will increase. The available resources for the medium term, given the ongoing reductions in Government funding, will need to be regularly reviewed.

Treasury Performance in the quarter ended 30th September 2014

3.8 **Borrowing:** The Council's healthy cashflow position continued through the whole of 2013/14 and through the first two quarters of 2014/15, as a result of which no borrowing has been required.

3.9 **Investments:** The following table sets out details of investment activity during the September quarter and during the financial year 2014/15 to date:-

	Qtr ended 30/9/14		1/4/14 to 30/9/14	
Main investment portfolio	**Deposits £m**	**Ave Rate %**	**Deposits £m**	**Ave Rate %**
Balance of "core" investments b/f	199.50	0.95	172.00	0.83
New investments made in period	62.50	1.39	138.50	1.11
Investments redeemed in period	-66.50	0.67	-115.00	0.66
"Core" investments at end of period	195.50	1.08	195.50	1.08
Money Market Funds	24.40	para 3.15	24.40	para 3.15
Svenska Handelsbanken instant access	15.00	0.50	15.00	0.50
Deutsche Bank 95 day notice	5.00	0.74	5.00	0.74
CCLA Property Fund	10.00	para 3.18	10.00	para 3.18
Payden Sterling Reserve Fund	15.00	para 3.17	15.00	para 3.17
Total investments at end of period	**264.90**	**n/a**	**264.90**	**n/a**
Heritable deposit - frozen (paras 3.19 & 3.20)			5.00	6.42

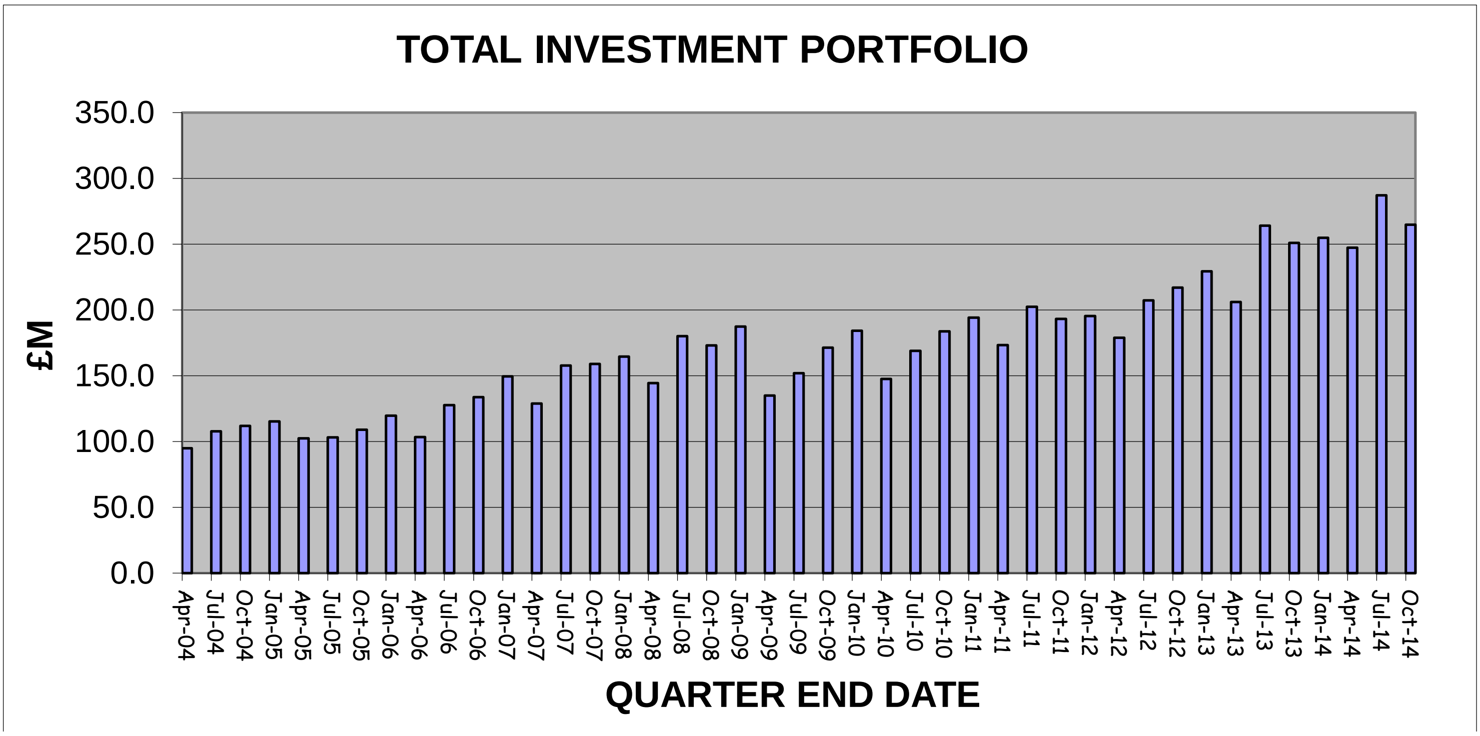
3.10 Details of the outstanding investments at 30th September 2014 are shown in maturity date order in Appendix 1 and by individual counterparty in Appendix 2. The average return on all new "core" investments was 1.39% during the September quarter. For comparison, the average LIBID rates for the September quarter were 0.35% for 7 days, 0.44% for 3 months, 0.58% for 6 months and 0.93% for 1 year. The average rate achieved on new investments placed in the period 1st April to 30th September 2014 was 1.11%, compared to the average LIBID rates of 0.35% for 7 days, 0.42% for 3 months, 0.55% for 6 months and 0.88% for 1 year. The improved average rate earned on new investments so far this year reflects the longer-term deposits placed in the September quarter with other local authorities and banks and compares favourably with the budget assumption (1% on new investments).

3.11 Base rate has now been 0.5% since March 2009 and the latest forecast by Capita (in October 2014) is for it to begin to slowly rise from around the middle of 2015. 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 have still found ourselves 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, RBS, HSBC, Barclays, Santander UK and Nationwide and all of these have reduced their interest rates significantly in recent years. On 13th October, Council approved an increase of £40m (from £40m to £80m) in the lending limits of both Lloyds and RSB and this will improve the overall return on investments and reduce the amount invested in low-interest instant access accounts.

3.12 In the September quarter, we took advantage of an increase in demand for cash from other local authorities and invested a total of £23m at rates between 1.50% and 1.90%. We also placed a total of £10m for 2 years with Lloyds at an average of 1.265% and a further £15m in a 2-year deposit with RBS linked to the 3-month Libor rate, but with a floor of 1.52% and a ceiling of 2.00%. Finally, we invested a further £5m with the CCLA Property Fund, bringing the total up to £10m.

3.13 In recent years, Lloyds has consistently offered better rates than other UK banks, but has reduced its rates significantly in the last year and is currently offering 0.57% for 3 months up to 1.00% 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 similar rates. Following the decision at the September meeting to recommend that the Council approve an increase in the limits for Lloyds and RBS (agreed by Council on 13th October), rates for longer periods were obtained from both banks. After consultation with Capita, a total of £40m was withdrawn from other investments (Svenska and Money Market Funds) and was invested in a 3 year RBS Certificate of Deposit (CD) at 1.85%. Rates from Lloyds are not as attractive and further investment options will be considered in the coming weeks. The Director of Finance will continue to monitor rates and counterparty quality and take account of external advice prior to any investment decisions.

3.14 The graph below shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds have increased steadily over the years, largely due to the earlier receipt of government funding. This has been a significant contributor to the over-achievement of investment income against budgeted income in recent years.



Other accounts

3.15 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 0.48%). The total balance held in Money Market Funds (£24.4m as at 30th September 2014 and, currently, £36.2m as at 5th November 2014) has generally been higher in the last two years than previously as bank credit rating downgrades have continued to restrict counterparty eligibility. The reduction in the latest quarter is mainly due to the completion of a large town centre property acquisition in September. A total of £40m was withdrawn from low-earning investment accounts (including Money Market Funds) in October to fund the £40m investment in a 3 year RBS CD, but this was reinstated, temporarily at least, at the beginning of November. 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	Actual Balance 31/03/14	Actual Balance 30/06/14	Actual Balance 30/09/14	Ave. Rate Q1 & 2 2014/15	Ave. Daily balance Q1 & 2	Latest Balance 05/11/14	Latest Rate 05/11/14
		£m	£m	£m	%	£m	£m	%
Prime Rate	15/06/2009	-	2.7	14.5	0.41	4.2	14.3	0.45
Ignis	25/01/2010	15.0	15.0	9.9	0.45	7.5	15.0	0.48
Insight	03/07/2009	4.3	15.0	-	0.41	5.3	-	0.44
Morgan Stanley	01/11/2012	-	-	-	0.37	-	-	0.43
Legal & General	23/08/2012	-	-	-	0.42	3.5	6.9	0.45
Blackrock	16/09/2009	-	-	-	-	-	-	0.33
Fidelity	20/11/2002	-	-	-	-	-	-	0.37
TOTAL		19.3	32.7	24.4		20.5	36.2	

3.16 Notice Accounts

Svenska Handelsbanken

In August 2013, the Council placed £15m in an instant access account with the Swedish Bank, Svenska Handelsbanken. The account originally paid 0.60%, but the rate was reduced to 0.50% in July 2014. As investment options were limited and the rate was better than that we were earning on our Money Market Funds, the account was left open until after the Council approved the increased limits for Lloyds and RBS in October. The account was, however, closed on 22nd October 2014 to provide part of the 3 year CD investment with RBS. The average daily balance in the first two quarters of 2014/15 was £7.5m.

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 and, in April 2014, RBS informed us that the rate would reduce to 0.30% in August, so we closed the account on 25th August 2014. The average daily balance in the first two quarters of 2014/15 was £6.45m.

Deutsche Bank

In the autumn of 2013, Capita notified the Council that they had negotiated a 95-day notice account facility with Deutsche Bank at a rate of 0.74%. 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. The £5m is still invested and the average daily balance in the first two quarters of 2014/15 was £2.5m. Notice to terminate was given at the end of October and the principal sum plus interest will be returned to us on 2nd February 2015.

3.17 Other investments: 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 Capita, we made our first investment in a corporate bond, £1.1m with Standard Chartered Bank. The bond matured on 28th April 2014 with a coupon value of 0.70%. In October, the Council agreed to a lowering of the minimum credit rating for corporate bonds to A-, which may provide us with more investment opportunities in the future. In November 2012, £15m was invested in the Payden Fund and that sum is still invested. 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 30th September 2014, our share of the Payden Sterling Reserve Fund was valued at £15,241k, which represented a return of 0.85% since inception.

3.18 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. Following consultation between the Director of Finance and the Resources Portfolio Holder, an account was opened in January with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made. Following more consultation, a further £5m deposit was made at the end of July 2014. This is a medium to long-term investment and performance data will be reported in due course.

3.19 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.

3.20 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 included 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 had recovered 94% as at 31st March 2014, we were able to reverse more of the impairment in 2013/14 (£311k). We are currently waiting for an update from the administrator.

3.21 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 the first half of

2014/15, Tradition UK achieved a return of 1.15% (mainly as a result of longer term investments placed in March and August 2014). 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 ratings downgrades in recent years. Details of externally managed funds placed on deposit as at the time of writing this report are shown below.

Bank	Sum	Start Date	Maturity	Period	Rate
Lloyds	£7.5m	18/08/14	18/08/16	2 years	1.28%
RBS	£5.0m	26/08/14	26/08/16	2 years	Min 1.52%; max 2.00% (linked to 3 month Libor)
West Dumbartonshire Council	£2.5m	26/03/14	24/03/17	3 years	1.60%
Perth & Kinross Council	£5m	23/03/14	24/03/17	3 years	1.45%

Mid-Year Review of Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15

3.22 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required to receive a mid-year review report on performance against the approved strategy. The Annual Investment Strategy was originally approved by Council in February 2014 and was updated in October 2014. A mid-year review, including comments on the economic background during the first half of 2014/15 and on the outlook, is included at Annex A.

Regulatory Framework, Risk and Performance

3.23 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.

3.24 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 A rate of 1% was assumed in the 2014/15 budget for interest on new investments and the budget for net interest earnings was set at £1,591k. Interest rates appear to have started to increase slowly and Capita now expect the Bank of England base rate to begin to rise slowly from around the middle of 2015. There have been no improvements to counterparty credit ratings, which means that the restrictions to investment opportunities that followed ratings downgrades in recent years have still been in place. In October, however, following a recommendation from the Executive, the Council approved an increase in the limits for the two part-nationalised banks (Lloyds and RBS) from £40m and 2 years to £80m and 3 years and, this, together with higher rates from longer-term deals placed with other local authorities and with higher average balances than anticipated, has resulted in a considerable improvement in interest earnings in 2014/15. At this stage, it is estimated that the 2014/15 outturn for interest earnings will be around £0.8m above budget.

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 Capita Treasury Solutions

ANNEX A

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2014/15

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 initially adopted by this Council in February 2012.

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 **Mid-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 mid-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 six months of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A review of compliance with Capital and Treasury Prudential Limits for 2014/15.

3 Economic update

3.1 Economic background

- After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. 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 by an additional £24bn, as announced in the March 2014 Budget -

which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far this year.

- In September, the U.S. Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures were depressed by exceptionally bad winter weather, but quarter 2 rebounded strongly to 4.6%.
- The Eurozone is facing an increasing threat from deflation. In September, the inflation rate fell further, to reach 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth.

3.2 Interest Rate Forecast

The Council's treasury advisor, Capita Treasury Solutions, has provided forecasts as follows:

Date	Base Rate	3 month LIBID	6 month LIBID	12 month LIBID
Now	0.50%	0.43%	0.57%	0.88%
Dec-14	0.50%	0.50%	0.70%	0.90%
Mar-15	0.50%	0.60%	0.80%	1.00%
Jun-15	0.75%	0.80%	1.00%	1.20%
Sep-15	0.75%	0.90%	1.10%	1.30%
Dec-15	1.00%	1.10%	1.20%	1.40%
Mar-16	1.00%	1.30%	1.40%	1.70%
Jun-16	1.25%	1.40%	1.50%	1.80%
Sep-16	1.25%	1.60%	1.80%	2.10%
Dec-16	1.50%	1.90%	2.00%	2.20%
Mar-17	1.50%	2.10%	2.20%	2.30%
Jun-17	1.75%	2.10%	2.30%	2.40%
Sep-17	2.00%	2.30%	2.50%	2.60%
Dec-17	2.25%	2.40%	2.70%	2.80%
Mar-18	2.50%	2.60%	2.80%	3.00%

Capita undertook a review of its interest rate forecasts in October 2014 and their latest forecast now includes a first increase in Bank Rate in quarter 2 of 2015 (previously anticipated in quarter 1).

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was initially approved by this Council in February 2014. A subsequent revision was approved in October 2014. 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 (up to 3 years with the part-nationalised banks Lloyds and RBS), with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information.

5 Investment Portfolio 2014/15

Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme.

Details of the Council's investment activity during the first six months of 2014/15 are provided in paragraphs 3.9 to 3.18 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 £264.9m of investments as at 30th September 2014 (£287.2m as at 30th June 2014).

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

The Council's budgeted investment return for 2014/15 is £1.591m, which is based on an assumed interest rate of 1.00% for new investments, and, due partly to longer term investments placed at higher rates and partly to higher balances than anticipated, the current projection is for a surplus of £0.8m.

6 Borrowing

The Council's capital financing requirement (CFR) as at 1st April 2014 was £2.6m. 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 – Mid-Year Review 2014/15

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 2014/15 were approved by the Executive and the Council in February 2014 and this Annex sets out the actual performance against those indicators in the first six 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 initially adopted by full Council in February 2012.

Prudential Indicators for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the Capital Programme for 2014/15 was agreed in February 2014. The increase in the latest estimate for 2014/15 is mainly the result of the significant level of slippage in expenditure planned for 2013/14 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	**2014/15 Original Estimate £m**	**2014/15 Revised Estimate £m**
Education	21.5	16.1
Renewal & Recreation	7.0	6.7
Environment	9.7	10.5
Care Services	9.0	4.4
Resources	3.1	21.2
Public Protection & Safety	0.3	0.3
Less: estimated slippage	-5.0	-5.0
Total	**45.6**	**54.2**

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	**2014/15 Original Estimate £m**	**2014/15 Revised Estimate £m**
Supported	45.6	54.2
Unsupported	0.0	0.0
Total spend	**45.6**	**54.2**
Financed by:		
Capital receipts	8.1	3.2
Capital grants	22.4	11.7
Other external contributions	8.3	11.7
Revenue contributions	6.8	27.6
Total financing	**45.6**	**54.2**
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 2014 was £2.6m. 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	**2014/15 Original Estimate £m**	**2014/15 Revised Estimate £m**
CFR	**3.2**	**2.3**
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

	2014/15	2014/15
	Original Estimate	Revised Estimate
	£m	£m
Total Capital Expenditure	£45.6m	£54.2m
Ratio of financing costs to net revenue stream	-1.3%	-1.3%
Net borrowing requirement (net investments for Bromley)		
brought forward 1 April	£196.8m	£244.8m
carried forward 31 March	£185.3m	£250.0m
in year borrowing requirement (reduction in net investments for Bromley)	-£11.5m	+£5.2m
Estimated CFR as at 31 March (finance lease liability)	£3.2m	£2.3m
(NB. Actual CFR as at 31 March 2014 (finance lease liability) = £2.6m)		
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	2014/15 Original Estimate £m	2014/15 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	£100.0	£200.0