South Bucks
District Council

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DEMOCRATIC AND ELECTORAL SERVICES

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Dear Councillor

RESOURCES POLICY ADVISORY GROUP

A virtual meeting of the Resources Policy Advisory Group will be held as follows with comments made via email:

DATE: **MONDAY, 21ST JANUARY, 2013**

TIME: **N/A**

VENUE: **N/A**

Yours faithfully

Jim Burness

Director of Resources

To: The Resources Policy Advisory Group

Mr D Smith
Mr Anthony
Mr Chhokar
Mr Hardy
Mr Harding
Mr Hollis
Mr Jones
Mr Kelly

Declarations of Interest

Members are reminded of the requirement to declare if he/she has a personal interest in any item of business, as defined in the Code of Conduct. If that interest is a prejudicial interest as defined in the Code the Member should withdraw from the (virtual) meeting.

A G E N D A

(Pages)

A. REPORT LIKELY TO LEAD TO PORTFOLIO HOLDER DECISION / RECOMMENDATION

The next meeting of the PAG is due to take place on Thursday, 21 March 2013

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SUBJECT:	**Treasury Management Strategy 2013/2014**
REPORT OF:	**Officer Management Team - Director of Resources** **Prepared by - - Principal Accountant**

1. Purpose of Report

1.1. To advise the Portfolio Holder on the Treasury Management Strategy & Annual Investment Strategy that should be adopted by the Council for 2013/2014.

2. Links to Council Policy Objectives

2.1. The Council's Treasury Management Strategy is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead.

3.2. The Local Government Act 2003 requires the Council to have regard to the Prudential code and to set Prudential Indicators for the next 3 years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.

3.3. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

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

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.
- Any increases in running costs from new capital projects.

Are limited to a level which is affordable within the projected income of the Council for the foreseeable future as part of the Council's overall Financial Strategy.

3.5. The DCLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIG) into one report. The Treasury Management Strategy 2013/14 document is attached to this report.

3.6. Following discussions with Sector Treasury Services, the Council's treasury management advisors, the proposed target figure for investment returns for 2013/2014 is £775K. This reflects the latest interest rate forecasts. This report seeks approval to the Strategy to achieve this target.

4. Treasury Management Strategy 2013/14

4.1. The Treasury Management Strategy 2013/14 attached to this report sets out the target for investment returns for 2013/14 and how this will be achieved against the background for the economy and the prospects for interest rates.

4.2 The Strategy sets out the economic background and prospects for interest rates in 2013/14.

4.3 The majority of interest is currently generated by Officers placing money in fixed deposits. The current policy is to stay relatively short on these investments in order to have liquid funds available to take advantage of investment opportunities and when interest rates begin to rise.

4.4 Current market returns on cash investments are historically low. This is primarily a result of the Funding for Lending Scheme and the Quantitative Easing strategy followed by the Bank of England which has depressed interest rates, The current forecasts of interest rates do not foresee any material increase in rates before 2015.

4.5 Alongside this effect, rating agencies have been taking a defensive stance on the credit rating of all financial institutions and virtually all have seen their ratings reduced. The Council has therefore had to adjust its counterparty criteria in order to continue to be able to make investments beyond one year.

4.6 The depressed interest rate market and the issues around having a range of acceptable counterparties led officers and members to consider alternative investment approaches for part of the cash portfolio which were discussed at the December meeting of this Pag following a presentation from Sector. The options considered are detailed in 4.7 of the attached Treasury Management Strategy 2013/14 along with the conclusion for officers to investigate diversifying part of the investment portfolio into corporate bonds/bond fund and adopting a revised counterparty matrix for the remaining element of the portfolio which is also shown in 4.7 of the attached TMS 2013/14.

5. Resources, Risk & Other Implications

5.1. The budget for investment interest was set as £800,000 for 2012/13.Current estimated returns shows that there is likely to be an underachievement for the year of £25K.

5.2. For 2013/14 investment income will be based on total core cash reserves of £20m in line with the medium term financial strategy. In addition officers invest surplus cash flow during the year and estimated returns are based on short-term interest rates remaining within the range of 0.50% to 1.50%.

5.3. Based upon the recommendations outlined in the Treasury Management Strategy 2013/14 attached the estimated investment returns for 2013/14 is £775K.

5.4. This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable, but is predicated on the assumption that the reinvestment of investments will be able to achieve a rate equal to that of the maturing investments. Loss of £35K of investment income is equal to £1 Council Tax on a band D property

5.5. As stated the investment returns are based upon a level of balances for 2013/14 of £20m. The estimated capital programme shows that this is realistic based on the latest programme. It is because of the level of balances that the Council hold that it will remain a debt free authority.

5.6. As with any budget based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of reserves held by the authority.

6. Summary

6.1. The PAG is requested to:

1. Advise the Portfolio Holder to recommend the Treasury Management Strategy 2013/14 to the Cabinet, including :

   (i) Investigating the diversification of £5 million of the investment portfolio into corporate bonds/bond fund or interest linked gilts, and for the remaining part of the portfolio adopting the counterparty matrix shown in 4.7 of the Treasury Management Strategy 2013/14 document.

   (ii) Approving the following appendices:

   - Appendix B the Annual Investment Strategy.
   - Appendix E the Prudential Indicators, including the borrowing limits.
   - Appendix F approve the MRP method to be used in 2013/14.

2. Advise the Portfolio Holder that because of the level of capital balances held that the Council remain a debt free authority.

Officer Contact:	**Howard Woodbridge, 01895 837319** **email:howard.woodbridge@southbucks.gov.uk**
Background Papers:	**None**

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South Bucks District Council

Treasury Management Strategy 2013/2014

1. Background

1.1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead.

1.2. In the light of the Icelandic situation in 2008,CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross –Sectoral Guidance Notes and Guidance Notes and the template for the revised Treasury Management Policy Statement. It is also a requirement that the Council formally adopt the Code which it did on 23rd February 2010. For Members information the requirements of the Code are detailed below.

1.3 The revised Code is built largely on what was recommended practise in the previous version, but does place greater or new emphasis in certain key areas. The main points in the new Code are as follows:-

a) All councils must formally adopt the revised Code and four clauses, these are shown as at appendix A which also sets out the scheme of delegation and the treasury management role of the section 151 officer.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. This is consistent with the approach always adopted by this Council.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation. This is something the Council has always been very clear about, in that whilst it uses advisers and external sources of information, that it is the officers and members of the authority who are accountable for policy and decisions.

e) Credit ratings should be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and credit ratings of that government support.

f) Councils need a sound diversification policy with high quality counterparties and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme. As a debt free authority this is not an issue that arises for the Council.

h) The main annual treasury management reports must be approved by full Council.

i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. For South Bucks DC this requirement is met by the regular reports to the Resources Portfolio Holder. The reporting of performance will compare the overall return of the portfolio with CPI for information.

j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body. For South Bucks DC this is carried out by the Resources PAG.

k) Treasury Management performance and policy setting should be subjected to prior scrutiny. This is achieved via the regular discussions on Treasury Management at the RPAG.

l) Members should be provided with access to relevant training e.g. the session that was run in November 2011 in conjunction with the Council's Treasury Management advisers and was open to all members of the Council to attend.

m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

n) Responsibility for these activities must be clearly defined within the organisation.

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

1.4 This strategy statement has been prepared in accordance with the revised Code. As in previous years the Council's Treasury Management Strategy will be approved annually by the full Council. In addition there will also be quarterly monitoring reports to the Resources PAG one of which will be the annual report. In addition the Resources Portfolio Holder will be emailed each month with a spreadsheet showing where the Council's investment portfolio has been invested. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.5 The Council will adopt/reaffirm the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	Reporting Arrangements	Frequency
Treasury Management Policy (revised)	Resources PAG /Cabinet/Council	Initial adoption 2010
Treasury Management Strategy Annual Investment Strategy MRP policy	Resources PAG /Cabinet/Council	Annually before the start of the year
Treasury Management Strategy Annual Investment Strategy MRP policy – mid year report	Resources PAG /Cabinet/Council	Appropriate quarterly report to RPAG
Treasury Management Strategy Annual Investment Strategy MRP policy – updates or revisions at other times	Resources PAG /Cabinet/Council	As appropriate
Annual Treasury Outturn Report	Resources PAG /Cabinet/Council	Annually by 30 September after the end of the year
Monitoring Reports	Resources PAG /Cabinet/Council	Quarterly
Treasury Management Practices	Resources PAG /Cabinet/Council	Annually
Investment Portfolio Detail	Resources Portfolio Holder	Monthly
Scrutiny of treasury management strategies & performance	Resources PAG	Ongoing but with particular focus when considering annual Strategy

1.6. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the CIPFA Prudential code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.

1.7. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

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

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.

- Any increases in running costs from new capital projects.

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

1.9. The DCLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIS) into one report and the AIS supporting this Strategy Statement is attached as Appendix B.

1.10. Following discussions with Sector Treasury Services, the Council's treasury management advisors, the proposed target figure for investment returns for 2013/2014 is £775,000.

1.11. This Strategy seeks approval for this level of return, how realistic it is and sets out how it can be achieved.

2. Current Portfolio Position

2.1. Investment Criteria – Investment income is mainly generated by Officers placing money in callable or fixed deposits with approved counter parties. When making the decision to invest Officers take into account security, liquidity and yield which are inter-related and the balance of the three is determined by the authority's needs and risk appetite. Decisions to invest are made following discussion between the Director of Resources and the Principal Accountant both of whom have been involved in treasury management for many years. The discussion on investment is based upon information that is available from the Council's treasury consultants, Sector, and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. Members approved a new matrix for in house investments made by Officers as part of the Treasury Management Strategy 2012/13 as follows:

	Fitch Credit Rating	Maximum Amount	Comment
	AAA	£10 million	The durations of the

UK Institutions	A+ or better	£7 million	investment would be informed by the detailed credit rating information
	A or better Banks with high UK Gov Support	£7 million	
	A or A-	£2 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA- or better	£2 million	Investment decision will be based on balancing yield against duration

2.2. Since the adoption of this matrix there has been a general downgrading of credit ratings by the rating agencies including Fitch which the Council use. The fall in the credit ratings of UK banks have not tended to be specific but of a more generic nature where once one falls they all tend to follow therefore those banks that were rated as AA- a year ago are now rated as A although there are some exceptions to this. If credit ratings fall further and most of the UK banks are currently on a negative watch then the Council's current counterparty matrix will become no longer fit for purpose. As things stand the Council would have to significantly reduce its investments with most of the UK banks as investments mature. It would also be faced with having a very limited range of counterparties to place funds of more than £1 million with. The issue of counterparties is considered together with interest returns and the alternatives to investing in cash in section 4 of this strategy statement.

2.3 A summary of the Council's current (at the end of December 2012) holdings of fixed deposits invested for a period in excess of one year is shown below:

UK Institutions	August Credit Rating	Maximum Amount £7 Million Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/12	08/02/17	(1)
Fixed Deposit		2,000,000	3 Month Libor	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	A					
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Total CA		3,000,000				
Lloyds Bank	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	12/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Total Lloyds Group		2,000,000				
Barclays	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	
Total Barclays		1,000,000				
Close Brothers	A					
Fixed Deposit		1,000,000	2.80%	04/10/12	04/10/13	
Total Close Bthrs		1,000,000				
Total Deposits		14,000,000				

(1) RBS have the option to switch to 3 month LIBOR[1] in years 3, 4 & 5.

(2) RBS have taken their option to switch to 3 month LIBOR in years 2 & 3.

In addition the Officers invest short term cash flow. Short term reserves are required mainly in the last quarter of the year when council tax and grant payments tail off but precept payments continue. A summary of the Council's current short term cash holdings with a maturity of less than one year is shown below.

	Fitch	Amount £	Interest Rate	Period
Nat West Bank	A	4,262,000	Base + 28 Basis Points	Instant Access
Nat West Bank	A	3,500,000	Base + 47 Basis Points	30 Day Notice Account
Nat West Bank	A	1,000,000	1.20%	95 Day Notice - 11/02/13
Nat West Bank	A	1,000,000	1.20%	95 Day Notice – 25/02/13
Bank of Scotland	A	1,000,000	1.15%	20/11/12 to 20/02/13
Bank of Scotland	A	1,000,000	3.00%	23/04/12 to 11/04/13
Bank of Scotland	A	1,000,000	2.00%	15/05/12 to 15/02/13
Bank of Scotland	A	3,000,000	3.00%	16/07/12 to 04/07/13
Bank of Scotland	A	1,000,000	1.75%	27/09/12 to 14/02/13
Close Brothers	A	1,000,000	2.10%	22/05/12 to 22/02/13
Total		17,762,000		

It should be noted that the level of short term cash being held at the moment is higher than would normally be the case at this time of the year. This is because long term investments that matured in November are being held on a short term basis pending investment longer term once this strategy has been agreed.

3. Prospects for Interest Rates and Economic Background

3.1 Part of the service provided by the Council's treasury management advisers is to assist the Council to formulate a view on interest rates. Appendix C draws together a number of current forecasts for short term (the Bank Rate) and longer fixed interest rates. The following table gives the Sector central view on the bank rate and short term money rates.

	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%
3 M LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6M LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12M LIBID	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%

Sector forecast that by the end of the March 2016 quarter the bank rate will be 1.75% with LIBID rates at 1.90% 3 month, 2.20% 6 months and 2.40% 12 months.

A detailed view of the current economic background is shown in appendix D with the Sector view shown below.

3.2 Sector's View

[1] LIBOR – London Inter Bank Offered Rate

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history,although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending,the usual driving force of recovery,is likely to remain under pressure due to consumers focusing on repayment of personal debt,inflation eroding disposable income, general nmalaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way.The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and Is likely to see the UK defict reduction plans slip.

This challenging and uncertain economic outlook has a several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties foe shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attrtactive and may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

4 Achieving the investment target in 2013/14

4.1 The Council has as part of the funding strategy for its revenue budget an assumption that interest earned on cash investments will be used to support the council tax, and by implication that the Council will continue to be debt free. For the current financial year the budget for investment income is £800k.

4.2 There are two elements to the Council's cash balances. Firstly there is the element that relates to the Council's working balance and from its cashflow over the course of the year. These cash balances need to be kept in a very liquid form with investments of one year or less duration. Secondly there is the element of cash retained primarily for investment purposes, this can be invested for longer periods and does not need to be so liquid. Broadly speaking this second element is around £20m.

4.3 In undertaking investments the Treasury Management Code of Practice sets out three important principles to have regard to:

- Security of Capital
- Liquidity
- A return consistent with these principles.

In recent years since the Icelandic Banks issue, authorities have been encouraged to see security as the most important principle.

4.4 The Council's current core investment portfolio has diversification and is split between short term investments of up to one year (70%), and those with a longer duration of up to five years (30%). Investing an element of the portfolio with a longer duration than most other local authorities has in recent years given the Council a better return on its investment compared to the sector average (2.23% at November 2012).

4.5 Current market returns on cash investments are historically low. This is primarily a result of the Funding for Lending Scheme and the Quantitative Easing strategy followed by the Bank of England which has depressed interest rates. The current forecasts of interest rates do not foresee any material increase in rates before 2015.

4.6 Alongside this effect, rating agencies have been taking a defensive stance on the credit rating of all financial institutions and virtually all have seen their ratings reduced. The Council has therefore had to adjust its counterparty criteria in order to continue to be able to make investments beyond one year.

4.7 The depressed interest rate market and the issues around having a range of acceptable counterparties has led officers and members to consider alternative investment approaches for the part of the cash portfolio that can be invested on a longer term basis.

The investment options considered have been.

- Corporate Bonds/Bond Funds
- Property Funds
- Equity Funds
- Investment Property

Property and Equity funds are discounted from detailed consideration as there are potential issues around whether an element of any income would derive from capital appreciation and therefore would not be revenue income.

Investment property hinges on identifying a suitable investment and whether there is a business case for investing. This could be done at any time and is more a capital investment decision as opposed to a treasury management one.

Corporate bonds or bond funds are considered to offer a means of potentially achieving improved returns provided there is an agreement to commit part of the cash reserves for periods of up to five years. These investments could be supplemented by investments in index linked gilts as part of an overall package to diversify the investment portfolio.

The main points of corporate bonds or bond funds are summarised in the following table.

	Corporate Bond	**Corporate Bond Fund**
Type	Individually differ by issuer, coupon rate, maturity date, sector, credit quality, secured or unsecured	Unit trusts, close end funds, variety of types with varying risk profiles
Investments via	Banks or brokers	Brokers, fund managers, pension fund managers
Redeemable	Principal repaid at par/maturity date	At net asset value
Weighted Average Maturity	Definite	Constant
Interest Rate Risk	Towards maturity interest rate risk reduces	Constant interest rate risk
Credit Risk	Concentrated to issuer	Diversified
Fees	Spread over price	Commission and annual management charge

In deciding to invest in a corporate bond or bond fund the issues of amount, duration and credit risk need to be addressed.

At present there is £8m invested for longer than a two years, therefore allowing for some diversification it is suggested that £5m is considered for some form of corporate bond investment.

In order to achieve returns after taking into account fees, higher than the current portfolio average it would be suggested that the duration of investment could be up to five years. This is because longer terms allow more scope in the current market for higher returns.

In respect of counterparty ratings generally it may offer more flexibility without compromising materially on risk to adopt a regime based on that suggested by the Audit Commission's report on Icelandic Banks, and which is set out below.

Audit Commission Grading	**Fitch Long Term**
Extremely Strong Grade	AAA
Very Strong Grade	AA+ AA AA-
Strong, but susceptible to adverse conditions	A+ A A-
Adequate Grade	BBB+ BBB BBB-
Speculative Grade	BB+ BB BB-
Very Speculative Grade	B+ B B-
Vulnerable Grade	CCC CC C
Defaulting Grade	D

Based on this approach the counterparty matrix for 2013/14 could be as follows.

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB- or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	BBB- or better	

4.8 In conclusion it would be suggested that officers investigate diversifying part of the investment portfolio into corporate bonds/bond fund, and for the remaining part of the portfolio adopt the revised counterparty matrix shown above. The return from bonds or bond funds should be at least forecast to match the returns achievable by the cash investments part of the portfolio. Based on these changes it would be proposed that the investment return target for 2013/14 be £775k.

5 Stoke Poges Memorial Gardens Fund

5.1 The investment returns from the fund is no longer credited directly to the Stoke Poges Memorial Gardens Fund cost centre but has been incorporated with all of the Council's other investment returns.

5.2 Due to the current cost of buying a new bond it is current policy to reinvest any maturities within the Council's cash investments. There are no maturities due from the Stoke Poges Memorial Gardens Fund in 2013/14. The current market value of the fund is £1,367,968.57.

6 Financial Summary & Risks

6.1 The budget for investment interest was set as £800,000 for 2013/14.Current estimated returns show that there is likely an underachievement for the year of £25,000.

6.2 For 2013/14 investment income will be based on total core cash reserves of £20m in line with the medium term financial strategy. In addition officers invest surplus cash flow during the year and estimated returns are based on short-term interest rates remaining within the range of 0.50% to 1.50%.

6.3 Based upon the recommended Strategy outlined above the estimated investment returns for 2013/2014 is £775K

6.4 This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable, but is predicated on the assumption that the reinvestment of investments will be able to achieve a rate equal to that of the maturing investments. Loss of £35,000 of investment income is equal to £1 council tax on a band D property.

6.5 As stated the investment returns are based upon a level of balances for 2013/14 of £20m. The estimated capital programme shows that this is realistic based on the latest programme. It is because of the level of capital receipts that the Council hold that it will remain a debt free authority.

6.6 As with any budgets based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of reserves held by the authority.

6.7 The Local Government Act 2003 sets out the new capital regulations and specifies that local authorities must comply with the Prudential Code produced by CIPFA. The Council has a duty to determine an affordable borrowing limit. As a debt free authority this would be nil, however the regulations also incorporate the limit for temporary borrowing required to cover short term cash flow. Whilst the Council has not needed to undertake any temporary borrowing since 1990/1991 it is necessary under statute to approve a limit in case the circumstances arise should it be required. It is recommend that Members approve an authorised borrowing limit of £3.5 million and an operational borrowing limit of £3 million, these together with other prudential indicators that the Council are required to set under the code are shown at Appendix E.

<u>Appendices</u>

A – Revised Policy Statements and CIPFA Code

B – Annual Investment Strategy

C – Interest Rate Forecasts

D – Economic Background

E – Prudential Indicators

F – Minimum Revenue Provision

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APPENDIX A

Treasury Management Policy Statement

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

2. This organisation regards the successful identification, monitoring and control risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance techniques, within the context of effective risk management."

Adoption of the revised CIPFA Treasury Management Code of Practice 2009

Introduction

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes. This was approved by the Council on 23rd February 2010.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

The revised Code has also set out various requirements which have been summarised in paragraph 1 of the latest Treasury Management Strategy Statement.

Resolutions

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following for clauses.

1. This organisation will create and maintain, as the cornerstone for effective treasury management:

    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Resources Portfolio Holder, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Treasury Management Role of the Section 151 Officer – Director of Resources

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

Appendix B

SOUTH BUCKS DISTRICT COUNCIL

Annual Investment Strategy 2013-14

1. This Council has regard to the DCLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

2. This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of Specified investments and Non- Specified Investments. These are listed in Schedules A&B.

3. This strategy sets out this Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Investment Objectives

4. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity, and in an ethical manner that does not put the Council's reputation at risk. Investment of the Council's funds will be in accordance with the Treasury Management Strategy and Policy. All investments will be in sterling.

5. The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Specified Investments

6. The idea of specified investments is to identify investments offering high security and high liquidity. These investments can be used with minimal procedural formalities. All these investments should be in sterling and with a maturity of no more than a year.

Non – Specified Investments

7. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a "high"credit rating.

Security of Capital : The use of Credit Ratings

8. This Council relies on credit ratings published by Fitch IBCA (Standard and Poor's for Money Market Funds where applicable) to establish the credit quality of counterparties and investment schemes. The Council has also determined the appropriate credit ratings it deems to be "high" for each category of investment.

   Monitoring of credit ratings:

   - The Council has access to Fitch IBCA credit ratings and is alerted to changes through its use of the Sector website. These ratings cover both the specific financial institution but also the credit rating for the country in which the institution is incorporated.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. The Council will also immediately inform any external fund manager that it may decide to use of the withdrawal of the same.

- The Council will establish with any fund manager that it may decide to use their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity.

Monitoring of Reputational Risk Issues

9. This will be undertaken by monitoring the financial press to identify and issues in respect of the non public sector investments held by the Council, and where appropriate seeking advice from external sources.

Use of Non – Specified Investments

10. The use of non-specified investments is limited to those set out in Schedule B. The Principal Accountant will keep the use of such investments under continuous review in the light of risk (including reputational risk), liquidity and return. No additions will be made without the approval of the Council.

Investment balances/Liquidity of Investments

11. Based upon its cash flow forecasts, the Council anticipates its average core cash reserves in 2013/14 will be £20m. A prime consideration in the investment of fund balances is liquidity and the Council's forecast cash flow. Any in-house investment of more than three months needs the approval of the Director of Resources or the Head of Finance. If the Council were to choose to use the services of a cash fund manager duration limits will be specified in the contract.

Provisions for Credit related losses

12. If any of the Council's investments appears at risk of loss due to default the Council will make revenue provision of an appropriate amount, or follow any guidance issued by Government in such circumstances.

13. Any cash fund manager appointed by the Council will manage the funds on a discretionary basis. The fund management agreement between the Council and the manager would formally document the instruments that could be used within pre-agreed limits. The fund manager would use the Council's credit rating criteria.

End of year Investment Report

14. At the end of the financial year, the Council will prepare a report on its investment activity as part of its treasury management activity report.

Schedule A

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED INVESTMENTS

All investments listed below must be sterling -denominated

Investment	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Circumstance of use	Maximum period
Term deposits with the UK government or with English local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)with maturities up to 1 year	Yes	High security although LA's not credit rated	In-house and by any external fund manager	1 year - in house 31 days – external fund manager
Term deposits with credit -rated deposit takers(banks & building socs) with maturities up to 1 year	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 year - in house 31 days – external fund manager. Internal forward deals subject to 3 months in advance only approved by DoR
Certificates of Deposit issued by credit – rated deposit takers banks and building socs): up to 1 year Custodial arrangement required prior to purchase	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 Year
Gilts: up to 1 year Custodial arrangement required prior to purchase	Yes	Govt- backed	In – house & by any External Fund Manager	1 Year
Money Market Funds	Yes	Yes, AAA rated	In -house & by any external fund manager	The period of investment may not be determined at the outset but would be subject to cash flow & liquidity requirements
Treasury bills (Government debt security with a maturity less than 1 year and issued through a competitive bidding process at a discount to par value) Custodial arrangement required prior to purchase	Yes	Govt- backed	In -house & by any external fund manager	1 Year

Schedule B

LOCAL GOVERNMENT INVESTMENT (England)
NON – SPECIFIED INVESTMENTS

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
UK government gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	(A)(i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return)per annum, aids forward planning. iv) Index linked gilts can offer means of insulating against effect of inflation on returns. (v)If traded, potential for capital gain trough appreciation in value (i.e.sold before maturity) (vi) No currency risk (B)(i) Market or interest rate risk:Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e potential for capital loss.	Yes	Govt backed	In -house & by any external fund manager	No restriction on gilts	Average maturity of the fund not to exceed 5 years
Supranational Bonds Custodial arrangement required prior to purchase	(A)(i)Excellent credit quality. (ii) Relatively liquid (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt – aids forward planning, enhanced return compared to gilts.	Yes	AAA or Government guaranteed	In- house & External fund manager	Not more than 25% of the external fund with no more than 10% in any one institution In house maximum of £5m	Average duration of the fund not to exceed 5 years. Maximum of 5 years

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
	(iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii)Spread versus gilts could widen					
Property Funds The use of these constitute capital expenditure	Alternative to cash funds. Returns subject to property market and rental streams	Not always dependant on terms of each fund	Investment in blue chip public sector property	Any Fund Manager	None	Dependant on terms of each fund
Term deposits with credit - rated deposit takers(banks & building socs), Including callable deposits with maturities up to 5 years	Gives a known rate of return	No	Yes, use of Fitch ratings Subject to counterparty matrix	In- house & by any external fund manager		5 years - in house Internal forward deals subject to 3 months in advance only approved by DoR
Corporate Bonds Custodial arrangement required prior to purchase	(A)(i)If held to maturity, known yield (rate of return) per annum (ii) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss.	Yes	Yes, use of Fitch ratings Subject to counterparty matrix	In- house & by any external fund manager	Maximum of £5m	Maximum of 5 years

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
Corporate Bond Funds Pooled Investment Vehicle Custodial arrangement not required	(A) Attractive returns, provides Diversification, no need for custodial facilities, professional fund management, has liquidity. (B) Market or interest rate risk, impact of credit rating changes, will attract fund management fees, would have to account for unrealised gains and losses annually.	Yes- redeemable at net asset value	Yes, use of Fitch ratings Subject to counterparty matrix	Fund Manager	Maximum of £5m	Maximum of 5 years

Appendix C

INTEREST RATE FORECASTS

The data below shows forecasts published by Sector, UBS and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers own views after discussion with Sector.

1. Individual Forecasts

Sector View Interest Forecast

	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%
3 M LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6M LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12M LIBID	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%

By the end of the March 2016 quarter bank rate is forecast to be 1.75% with LIBID rates at 1.90% 3 month, 2.20% 6 months and 2.40% 12 months.

UBS Economic interest rate forecast (for quarter ends)

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

Capital Economics interest rate forecast

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

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APPENDIX D
ECOMOMIC BACKGROUND

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

The **Eurozone sovereign debt crisis** has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request (for a national bailout) and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high, unless the Eurozone were to accept a major write down of Greek debt. The possibility of a write down has now been raised by the German Chancellor, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the **emerging markets**. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it could be in risk of heading for a hard landing rather than a gradual slow down.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended in the autumn statement over a longer period than the original four years. Achieving this new extended time frame will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period. It was important for the Government to retain investor confidence in UK gilts so there was little room for it to change course other than to move back the timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

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

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;

- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;

- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;

- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;

- stimulus packages failing to stimulate growth;

- elections due in Germany in 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

- the potential for action to curtail the Iranian nuclear programme

- the situation in Syria deteriorating and impacting other countries in the Middle East

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields

- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held

- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone

- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth

- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's Aaa rating at the start of 2013).

Appendix E

PRUDENTIAL CODE & INDICATORS STATEMENT

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA to support local authorities with the management of their capital finance and investment programmes. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators will be monitored during the year and the final position at the year end compared to the forecast.

Prudential Indicators of Affordability

1.Capital Expenditure

The first prudential indicator for affordability gives details of the total capital expenditure plans. This is to help ensure that these are reasonable given the resources of the council.

	2011/12 Actual £'000	2012/13 Forecast £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital Expenditure	845	1,527	2,188	2,382	682	802

For SBDC the capital programme will continue to be fully funded from capital receipts and Government grant, and the above capital expenditure plans will not reduce the level of those receipts to below that assumed in forecasting future investment income.

2.Ratio of financing costs to net revenue income stream

The second indicator shows how much of a councils revenue budget has to be allocated towards interest payments, or for a debt free authority such as SBDC how much investment income contributes to the budget.

	2011/12 Actual £'000	2012/13 Forecast £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Financing Costs (1)	874	775	775	775	800	800
Net Revenue Stream	7,679	6,811	6,877	6,684	6,584	6,484
Ratio	(11.4%)	(11.4%)	(11.3%)	(11.6%)	(12.2%)	(12.3%)

(1) ie net investment income

As SBDC is debt free – income from investments far outweighs any short term borrowing costs, therefore the ratio of financing costs to revenue income stream (Government grant and Council tax payers) will be negative.

3. Incremental Impact on Council Tax

The next indicator assesses the impact of the capital programme on the revenue budget.

For SBDC the size of the capital programme has an effect on the Council's revenue budget (and hence Council Tax) in two ways.

Firstly each pound spent on the capital programme reduces the amount of capital reserves, which in turn reduces the Council's investment holdings and thus the revenue interest earned by the Council. Based on current investment rates, increasing the overall capital programme by £100,000 will reduce annual interest by and thus increase the revenue budget by £1,000. Similarly reducing the overall capital programme by £100,000 will increase annual interest by and thus reduce the revenue budget by £1,000. £1,000 is equivalent to approximately 3.5p on the average band D Council Tax.

Secondly additional capital expenditure can result in additional revenue maintenance costs, for instance a new piece of ICT equipment is likely to required additional annual maintenance and support.

4. Capital Financing Requirement

This indicator provides details of an authority's underlying need to borrow. For debt free authorities this should be nil.

	2011/12 Actual £'000	2012/13 Forecast £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
SBDC Capital Financing Requirement	0	0	0	0	0

Furthermore the SBDC capital financing requirement will always remain nil whilst capital expenditure if fully funded from capital receipts and Government Grant.

5. Authorised Temporary Borrowing Limits

This indicator sets limits on how much SBDC can borrow.

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Authorised Limit	3,500	3,500	3,500	3,500	3,500
Operational Limit	3,000	3,000	3,000	3,000	3,000

The Authorised Limit for South Bucks represents the maximum temporary borrowing limit. The Operational Limit focuses on the day to day treasury management activities of the authority and is set at a lower figure than the Authorised Limit because cash – flow variations may lead to the occasional (but not sustained) breeches of the operational limit.

Appendix E

Prudential Indicators for Prudence

1. Net Borrowing and The Capital Financing Requirement

The first prudential indicator for prudence is to ensure that in the medium term borrowing will only be used to fund capital expenditure. As SBDC does not borrow (except for short term cash flow requirements) then this indicator is met.

2. Treasury Management Indicator

The second indicator is whether or not the authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. SBDC has done this and thus meets this indicator.

3. Upper limit for interest rate exposure.

The interest rates exposure indicators are designed to limit exposure to the effects of changes in interest rates. As a debt free authority these are set reasonably high to allow investment flexibility.

	2012/13	2013/14	2014/15	2015/16
Fixed Rate	100%	100%	100%	100%
Variable Rate	35%	50%	50%	50%

A minimum of £10 million is committed to be invested in fixed rate deposits during the whole of 2013/14, representing 50% of the total investments available. It has been assumed that the remaining balance of the Council's investments, 50%, is available to invest in variable rate investments.

4. Maturity Structure of Borrowings

This indicator is designed to reduce the risk of large sums of borrowings having to be repaid at the same time. However as a debt free authority SBDC will only ever have short term debt to cover cash flow shortfalls. As such for SBDC all borrowings shall be repayable within 12 months.

5. Upper limit for total principal sums invested for over 364 days.

Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority must set an upper limit for each forward financial year period for the maturing of such investments. This prudential indicator is referred to as prudential limits for principal sums invested for periods longer than 364 days. This indicator is designed to ensure that authorities always have sufficient funds to cover their cash flow needs and thus do not need to realise investments before they reach maturity.

As SBDC has cash reserves of over £20m it is able to invest longer term and thus has a high limit.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Upper Limit	20	20	20	20

The above upper limit figure has been calculated taking into account the maximum that could be available for investing in excess of 1 year allowing for the needs of short term cash flow and the use of capital receipts to fund capital expenditure. At present the Council has £10 million of investments which may mature in excess of 364 days.

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Appendix F

MINIMUM REVENUE PROVISION

The Local Government and Public Involvement Act 2007 provided a new power to the Secretary of State to issue guidance on accountancy practice rather than through the formal issue of Regulations through statute.

The first guidance issued under this new power relates to Minimum Revenue Provision (MRP). This is the amount which local authorities provide for the repayment of their borrowings and whilst this Council is debt free and therefore needs to make no provision, it is still required to meet the requirements of the guidance in approving a policy statement on making MRP.

Under the guidance authorities will be required to prepare an annual statement in respect of their policy on making MRP. This must be submitted to Full Council and will form part of the annual prudential indicator report.

The guidance provides a number of options for making a 'prudent provision', this is to say that the provision for the repayment of borrowing used to finance the acquisition of an asset should be made over a period bearing some relation to that over which the asset provides a service to the authority.

The options for prudent provision are as follows:
Option 1 – Regulatory Method
Where debt is supported by Revenue Support Grant (RSG), authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated this way.

Option 2 – CFR Method
This method is based upon 4% of an authority's non housing CFR (capital financing requirement) at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present.

Option 3 – Asset Life Method
Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method the concept of an MRP holiday makes its debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 4 – Depreciation Method
Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with option 3 the MRP holiday will be available for assets yet to be brought into service.

It is anticipated that options 1 & 2 will only be used where capital expenditure is incurred prior to 1st April 2008 and where capital expenditure is incurred on or after that date which the authority is satisfied forms part of its supported capital expenditure. Options 3 and 4 would be used in relation to all capital expenditure incurred after the 1st April which is financed by borrowing or credit arrangements.

In this Council's case where all of the capital expenditure is supported by financing either from Government grant or capital receipts and where the CFR is nil option 2 applies and no MRP is required as is the present case.

It is therefore recommended that option 2, the CFR method, is adopted as the Council's annual policy on making MRP for 2013/14.

Note - The capitalised element of the leases for the Capswood offices and the embedded leases for the refuse vehicles within the refuse contract is written off to revenue on an annual basis.

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