For General Release

REPORT TO:	**Cabinet 26 February 2013**
AGENDA ITEM NO:	**7**
SUBJECT:	**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2013/14**
LEAD OFFICER:	**Nathan Elvery** **Executive Director Corporate Resources and Customer Services**
CABINET MEMBER:	**Cllr Mike Fisher, The Leader** **Councillor Dudley Mead, Deputy Leader (Statutory) and Cabinet Member for Housing, Finance & Asset Management**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Improving corporate capacity ensures that the Council delivers effective services contributing to the achievement of the Council's visions and corporate priorities. An effective and efficient Treasury Management Strategy linked to a Minimum Revenue Provision Policy Statement and an Annual Investment Strategy ensures that the Council's capital and investment plans are affordable, prudent and sustainable.

FINANCIAL IMPACT:

This report sets out the Council's Treasury Management objectives, which are to manage the Council's cash flows, borrowing and investments minimising the level of risk exposure and maximising investment yield returns ensuring that capital expenditure and financing plans are prudent, affordable and sustainable. The report details the activities that will be undertaken by the Council in 2013/14 and the capital borrowing needs of the Council for 2013/14:-

	£m	Total £m
1. In Year Borrowing Requirement	118.7	
		118.7
2. Total Interest Payable on Debt		
- chargeable to Housing Revenue Account (HRA)	12.1	
- chargeable to General Fund (GF)	13.7	
		25.8

In addition the report details the investment activities and the estimated level of income earned.

	£m	Total £m
Investment Income net of interest apportioned to Non-General Fund accounts e.g. HRA and Schools' cash balances	(2.0)	
		(2.0)

FORWARD PLAN KEY DECISION REFERENCE NO.:

This is not an executive key decision – this is reserved to the full Council for decision as part of the budget and policy framework.

1 RECOMMENDATIONS

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below:

The Cabinet is asked to recommend the Council to approve:

1.1 The adoption of the updated Chartered Institute of Public Finance (CIPFA) Treasury Management in the Public Services Code of Practice 2011 Edition as noted in 2.2 of this report and the subsequent amendment to the Council's Financial Regulations.

1.2 The Treasury Management Strategy Statement 2013/14 as set out in paragraphs 3.1 to 3.3 of this report including:

1.2.1 The Authority takes up the balance of its 2012/13's borrowing requirement and future years' borrowing requirements, as set out in paragraph 3.4.

1.2.2 The opportunities for debt rescheduling be reviewed throughout the year by the Executive Director Corporate Resources and Customer Services and that he be given delegated authority to undertake such rescheduling only if revenue savings or additional cost avoidance can be achieved at minimal risk in line with organisational considerations with regard to the HRA as set out in the Council's Financial Strategy.

1.2.3 The Treasury Management Strategy be continually monitored and in the event that interest rates rise or fall substantially, be reconsidered and a further report be submitted to Corporate Services Committee as appropriate and that delegated authority be given to the Executive Director Corporate Resources and Customer Services to make decisions to protect the Council's financial position in light of market changes or investment risk exposure. In addition, a mid-year monitoring report on treasury activities and periodic reports on investments will be made to Corporate Services Committee.

1.3 The Annual Investment Strategy as set out in paragraph 3.6 and as detailed in **Appendix B** of this report.

1.4 That the Affordable Borrowing Limits (required by Section 3 of the Local Government Act 2003) as set out in paragraph 3.7 and as detailed in **Appendix C** be as follows:

2013/14	2014/15	2015/16
£894.7m	**£959.9m**	**£1,005.0m**

1.5 The Prudential Indicators as set out in paragraph 3.9 and in **Appendix D** of this report.

1.6 The Annual Minimum Revenue Provision (required by SI 2008/414) as set out in paragraph 3.10 and as detailed in **Appendix E** of this report.

1.7 The Council's authorised counterparty lending list as at 31st December 2012 as set out in **Appendix F** of this report and the rating criteria set for inclusion onto this list.

2 EXECUTIVE SUMMARY

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 The CIPFA Code of Practice on Treasury Management in the Public Services (revised November 2009) which was adopted by this Council on 1st March 2010 (Min.6 Section 2 paragraph 1.1 to 1.9) has been updated in 2011 to allow for hedging tools such as derivatives to be used for the management of interest rate risk and for the prudent management of financial affairs. The Council will follow best practice in adopting this updated Code of Practice 2011.

2.3 The Code recommends that the Council approve before the commencement of each financial year:

1. A Treasury Management Strategy for borrowing;
2. An Annual Investment Strategy setting out the Council's policies for managing its investments;
3. A statement on the Council's policy for its annual Minimum Revenue Provision (MRP) (repayment of debt).

2.4 The Local Government Act 2003 requires the Council to have regard to the CIPFA's Prudential Code for Capital Finance in Local Authorities 2011, to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In particular, the Prudential Code requires the Council to set a number of Prudential Indicators for the next three financial years. This report, which incorporates these indicators, details the expected treasury activities for the year 2013/14, set in the context of the longer term Treasury Management planning forecasts for the organisation. The implications of these key indicators are the overriding control and guidance for the future capital programme and the revenue consequences that arise for the Council in future financial years.

2.5 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 expenditure requirement for each financial year to include the revenue costs that flow from capital financing decisions.

3 DETAIL OF THE REPORT

These strategy policies and statements cover:-

- The current treasury position;
- The Housing Revenue Account (HRA) Self-Financing Reforms;
- The borrowing strategy and borrowing requirement;
- Prospects for interest rates and the Economic Outlook;
- The Annual Investment Strategy;
- Treasury limits (as specified by the Local Government Act 2003);
- Debt rescheduling and repayment;
- Prudential Indicators;
- The Minimum Revenue Provision Policy Statement.

3.1 **Current Treasury Position**

The Council's Treasury Management Strategy Statement for 2013/14, which is set out in paragraphs 3.1 to 3.3, incorporates the current treasury position and the overall borrowing strategy to be adopted.

The Council's treasury position as at 31st December 2012 comprised:

Table 1: Borrowing by the Council

		Principal £m	Average Rate %
Fixed Rate Funding	- PWLB[1]	518.9	4.48
	- Other [2]	0.3	3.50
	- LOBO [3]	60.0	4.23
Variable Rate Funding	- LOBO [3]	70.0	3.99
Total External Debt as 31/12/12		**649.2**	**4.40**
Additional			
GF borrowing requirement outstanding for 2012/13		84.8	
HRA borrowing requirement outstanding for 2012/13		3.5	
Long term debt maturing in-year		(4.0)	
Maturities to be refinanced		4.0	
Estimated Debt as at 31/03/13		**737.5**	**4.40**

1. PWLB is the Public Works Loan Board, the branch of government that is the principle lender to local authorities. Included within this amount is the £223.1m taken up for the HRA self-financing settlement – see 3.2.2 below.

2. Other relates to 3 ½% Irredeemable Stock which was issued by this Authority in the past.

3. Lender's Option Borrower's Option (LOBOs) loans are commercial debts with options for the lender to vary the rate at pre-set intervals. If the option is exercised, then the Council can either accept the new rate or repay the loan with no penalty.

Table 2: Temporary Investments

	Principal £m	Average Rate %
Temporary investments outstanding as at 31/12/12	**158.7**	**0.97**
Estimated temporary investments outstanding as at 31/03/13	**110.0**	**0.97**

3.2 **Housing Revenue Account (HRA) Self-Financing Reforms**

3.2.1 The Government's Localism Act included the replacement of the national Housing Revenue Account (HRA) subsidy system with a system of self-financing from 1st April 2012. The new system gives local authorities the freedom to finance and operate their council housing stock without annual government decisions on HRA subsidy.

3.2.2 With the introduction of the new system from 1 April 2012, this Council was required to make a one off payment of **£223.126m** to the Communities and Local Government (CLG) Office on 28th March 2012. This removed the Council from the national HRA subsidy system and discharged all of the Council's future liabilities under the system. In the long term these HRA reforms are expected to have a beneficial effect on the Council's HRA finances and will provide the HRA with a stable basis for long term financial planning.

3.2.3 The cash settlement amount of £223.126m was financed by loans borrowed from the PWLB at preferential rates over fixed periods to ensure that the requirements of the HRA business plan and the overall requirements of the Council were met. The Council's HRA debt ceiling has been set by the Government at £333.9m. At present the level of HRA borrowing, which includes the £223.126m settlement sum, stands at £310.1m. Therefore there remains a financial capacity of £23.8m for future HRA borrowing requirements.

3.2.4 The main drivers for moving towards the newly independent HRA have been the certainty of, and control over, costs and income streams. CIPFA has recognised this and have proposed guidance on the treatment of interest costs in the new system. From 1 April 2012, the Council adopted CIPFA's preferred methodology of splitting the pool of existing external debt prior to 31/3/12 and allocating it between the HRA and GF thereby creating two separate pools of debt. The HRA debt of £223.126m taken up on 28th March 2012 at the reduced PWLB rate has been allocated to the HRA pool. Thereafter, future actual debt taken up for either GF or HRA will be allocated to the pool concerned with each paying interest charges based on the actual debt and interest rates of their respective pool. Decisions relating to the timing and quantity of future borrowing will fall to the Executive Director of Corporate Resources and Customer Services in accordance with the principles set out in the Treasury Management strategy as detailed below.

3.3 The Borrowing Strategy

3.3.1 Borrowing during 2013/14 and for future years will comprise that which is supported by central government capital grants, prudential borrowing plus replacement borrowing for maturing debt. Support for past GF capital expenditure and associated borrowing will continue to be provided through Central Government Revenue Support Grant (RSG). There will be no HRA supported borrowing allocations for 2013/14 and for future years. The HRA has headroom of an additional £23.8m of further borrowing (see 3.2.3) within its permitted debt cap all of which being unsupported. Of this, £3.5m will be taken in 2012/13 and £9.1m will be taken up in 2013/14 with the balance being borrowed over future years as set out in Table 3 below. The cost of additional debt has been factored into the Authority's Financial Strategy planning assumptions and forecasts, which also includes the Authority's role as senior debt lender for Bernard Weatherill House. With the Bank of England continuing to keep the base rate at historically low levels the Authority will seek ideal opportunities to secure financing for the Capital Strategy at an affordable cost. The capital programme recommends the amounts detailed in 3.4 to be borrowed over the future three financial years thereby recognising the strategic nature of the Council's infrastructure requirements. This is partly in response to the current economic climate, which has seen a reduction in the ability of the private sector to invest in the Borough and partly as a result of the stronger financial position the Council finds itself in which allows it to make this change in the capital programme.

3.4 Borrowing Requirement

Table 3: Borrowing Requirement

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	Total
		Estimate	Estimate	Estimate	£m
1. GF Prudential borrowing – funded through council tax.	59.5	118.7	72.5	61.2	311.9
2. HRA additional borrowing – unsupported by any grant funding.	3.5	9.1	9.0	2.2	23.8
3. Bernard Weatherill House	30.7	0.0	0.0	0.0	30.7
In Year Borrowing Requirement (Gross)	**93.7**	**127.8**	**81.5**	**63.4**	**366.4**
4. Less In Year Minimum Revenue Provision (MRP) for debt repayment.	(7.9)	(10.6)	(16.3)	(18.3)	(53.1)
In Year Borrowing Requirement (Net)	**85.8**	**117.2**	**65.2**	**45.1**	**313.3**
5. Add 2011/12's borrowing requirement outstanding and not taken in 2012/13	32.5	0.0	0.0	0.0	32.5
6. Borrowing – to replace maturing debt	4.0	0.0	0.0	0.0	4.0
7. Less loans taken up 2012/13	(30.0)	0.0	0.0	0.0	(30.0)
In Year Borrowing Requirement outstanding	**92.3**	**117.2**	**65.2**	**45.1**	**319.8**

3.4.1 The gross in year borrowing requirement for 2013/14 has been estimated to be **£127.8m**. Of this, £118.7m relates to borrowing to fund the GF capital programme and £9.1m relates to borrowing for HRA projects.

3.4.2 The borrowing requirement is to fund capital investment as determined by the Council's Capital Programme. The budget report elsewhere on the Cabinet agenda provides details of the full capital requirement for the Council. In order to take advantage of any low long term interest rates, part of the following two years' borrowing requirement may also be taken in advance in 2013/14. Under CIPFA's Treasury Management Code of Practice 2011, local authorities are permitted to borrow in advance of their capital requirement where there is a clear business case for doing so and where this will only be for the current capital programme or to finance future debt maturities. The Executive Director of Corporate Resources and Customer Services will be responsible for managing the borrowing requirement and for ensuring that borrowing decisions are taken as part of the Council's Capital Strategy.

3.4.3 The borrowing requirement takes account of two of the main objectives of the Prudential Code which are:

a. That capital expenditure plans are affordable; and
b. That all external borrowing and other long term liabilities are within prudent and sustainable limits.

3.4.4 The total interest payable on the Council's long term debt in 2013/14 is estimated to be £25.8m of which £12.1m relates to borrowing undertaken for HRA schemes and for the HRA self financing settlement and is charged to the HRA with the balance of £13.7m being charged to the General Fund (GF).

3.4.5 The methods available to finance the balance of 2013/14's borrowing requirement and future borrowing requirements are:

The Public Works Loan Board (PWLB)

The Authority can borrow money from the PWLB. Loans are available for periods up to 50 years at both fixed and variable interest rates. In the Government's 2012 Budget, it was announced that a discounted PWLB interest rate would apply for loans borrowed by local authorities to fund capital schemes through prudential borrowing and for the refinancing of maturing long term debt. The only requirement was that an application was to be made on the amounts required for the next three financial years with a brief description as to the capital expenditure to be incurred. This discounted rate is known as the 'certainty rate' and will be 20 basis points below the prevailing PWLB interest rate on the day that loans are taken. This Authority has qualified for this 'certainty rate' for loans up to £195.312m for 2012/13, £103.927m for 2013/14 and £95.841m for 2014/15. With long-term PWLB rates currently very low, this 'certainty rate' now makes funding through the PWLB the most attractive option. Loans will be taken to fit into gaps in the Authority's existing debt maturity profile.

The Money Markets

Loans obtained through the Money Markets are generally at rates higher than the PWLB because commercial debt factors in risk and the government does not as local authorities are treated effectively as government backed. In recent years a form of borrowing known as LOBO loans have become a more popular option for local authorities. These loans are at a fixed rate of interest for an initial fixed period of time after which the lender has the option to vary the interest rate at pre-determined intervals. If the lender decides to exercise this option, then the borrower can decide whether to accept the new terms or to repay the loan with no penalties. Generally this form of borrowing is cheaper in the initial fixed period of the loan as interest rates are held lower in this period to attract borrowers. Advice will be sought from Sector, the Council's independent treasury advisers before new LOBO loans are taken up for future funding.

Local Authority Bonds

The increased divergence between PWLB and gilt rates coupled with inflexible market borrowing opportunities have created the conditions necessary to make the issue of local authority bonds, at a rate higher than the gilt rate but lower than the cost of PWLB borrowing, an attractive proposition. However, in 2011/12 and 2012/13 spreads have widened to the extent that the market is pricing these issuances at a margin above the

PWLB. The Council will continue to explore this option and will take advice from Sector on all aspects of this type of funding.

Temporary Borrowing

Temporary borrowing (up to 1 year) can be used as short-term finance in order to manage the capital cash flow requirement pending a more advantageous time to borrow long term.

Temporary Investments

The next financial year is expected to be a time of continuing historically low bank rates. Currently, long-term borrowing rates are higher than rates achievable on investments and this is likely to prevail in 2013/14. Therefore, as an alternative to taking up new external loans, consideration will be given to the use of temporary investments, as they mature, to fund the borrowing requirement. Council Officers, in conjunction with Treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the most suitable responses to likely movements.

3.4.6 Any borrowing undertaken will need to fit into the Council's existing debt maturity profile to ensure an even distribution of maturities in future years. A prudent target for debt maturing in any single year in line with best practice is considered to be a maximum of 15% of total outstanding debt. Up to the financial year 2010/11, the Council's overall external debt level and the interest payable on this debt had remained consistently below the average of all London boroughs. This has been verified by CIPFA and the data is detailed below.

	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
LB Croydon	6.06%	5.11%	5.10%	4.80%	4.70%	4.40%	4.30%
London Average	7.01%	6.73%	6.30%	5.90%	5.80%	5.65%	5.40%

The table below shows the long term debt position for the Authority over the same period.

	2004/05 £m	**2005/06 £m**	**2006/07 £m**	**2007/08 £m**	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
LB Croydon	124	169	213	217	257	279	326
London Average	243	277	310	343	399	392	426

The above data is attached as a chart in **Appendix G**.

The introduction of the HRA self-financing regime from 1 April 2012 (see 3.2) meant that some authorities, like Croydon, had to borrow the self-financing settlement sum to repay the Government to exit the HRA subsidy system while other authorities had their PWLB debt redeemed by the Government to the full value of the settlement sum. This exercise was carried out on 28 March 2012 (see 3.2.2) thereby affecting the national debt statistics from 2011/12 onwards. For those London councils that financed their HRA settlement sum by borrowing, an average of £112m of new debt was incurred (Croydon borrowed £223.126m) while for other London authorities, an average of £248m of their debt was repaid to the PWLB. The dynamics of the HRA settlements has complicated the previously transparent process of comparing external debt between authorities. Further, CIPFA's recommendation to split debt between HRA and GF from 1 April 2012 has added to this complexity as debt statistics produced by

CIPFA do not yet feature comparisons between HRA and GF debt.

3.4.7 The Authority's long-term debt profile as at 31st December 2012 is set out in **Appendix A**. The level of additional debt proposed within this report positions the Authority comparable to other boroughs of a similar profile facing similar challenges. As set out by this report and illustrated by the Prudential Indicators shown in full in **Appendix D**, the proposed level of debt meets the affordability criteria.

3.5 Prospects for Interest Rates and the Economic Outlook

3.5.1 The outlook for the global economy remains uncertain. At the centre of this uncertainty is the ongoing Eurozone debt crisis. As the Eurozone is the UK's largest trading partner, this has had a negative impact on the UK economy, which is now unlikely to grow significantly in 2013. Quarter 2 of 2012 was the third quarter of contraction in the UK economy making this recession the worst of any of the five recessions since 1930.

3.5.2 The Eurozone sovereign debt crisis has abated somewhat following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries requesting a bailout. The immediate target for this statement was Spain, which continues to resist making such a request in order to avoid surrendering its national sovereignty to International Monetary Fund (IMF) supervision. However, the Eurozone's main problem remains Greece, where, despite bailouts Greek's total debt is unsustainably high likely to reach 190% of the country's Gross Domestic Product (GDP). Many economic commentators still view a Greek exit from the Euro as inevitable despite recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact.

3.5.3 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 keeping ultra low interest rate into 2015. 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.

3.5.4 The UK Government's austerity measures, aimed at getting the public sector deficit reduced, has now been 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.

3.5.5 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 Quarter 3 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.

3.5.6 Economic growth in the UK has been flat since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England's (BOE) Inflation Quarterly report for August 2012 and then further lowered in November 2012. QE was again increased by £50bn in July 2012 to a total of

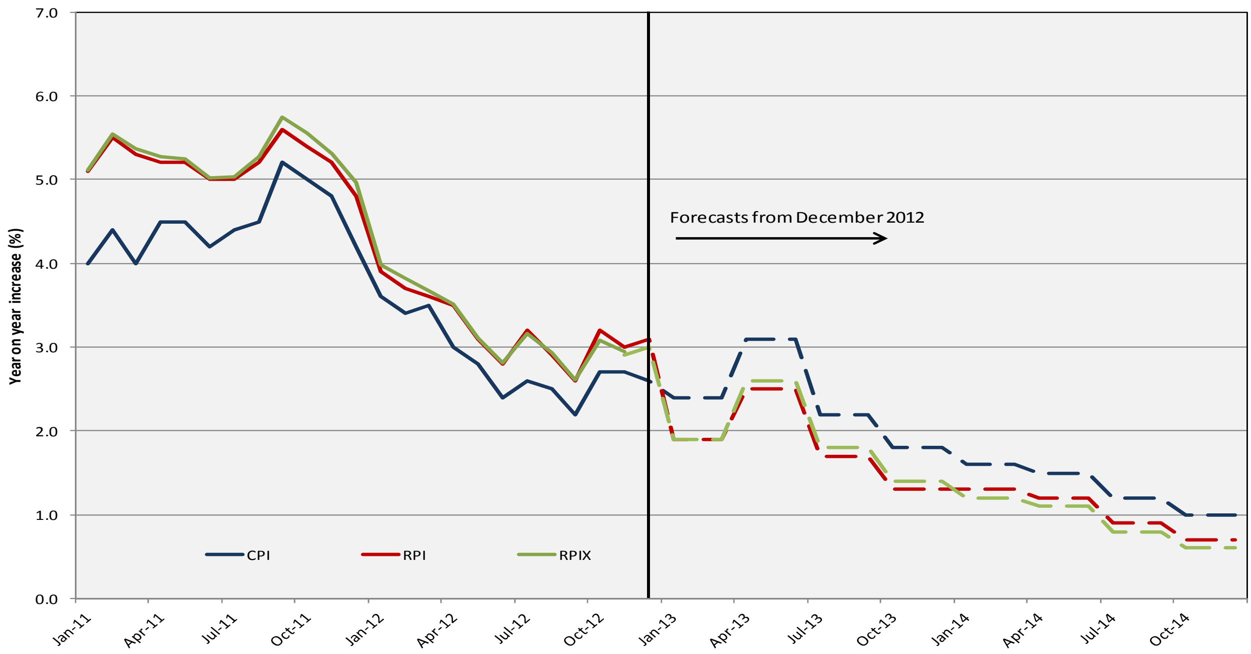
£375bn. Many forecasters are expecting the BOE's Monetary Policy Committee (MPC) to vote for a further round of QE to stimulate economic activity regardless of any near-time optimism.

3.5.7 The UK continues to enjoy a triple-A sovereign rating although Fitch, Moody's and Standard and Poor's have recently placed this rating on a Negative Outlook. 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 and could result in the loss of the UK's prized AAA rating.

3.5.8 Inflation is an important factor that determines movements in interest rates in the UK. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased to 2.7% in October 2012 as utility price rises continued to feed through, though it is expected to fall back to reach the 2% target within the two year horizon.

Historical data together with forecasts on future UK inflation are detailed in Chart 1 below.

Chart 1: UK Inflation Forecasts (Year on Year) January 2011 to December 2014



Notes to Chart 1:

•As shown above, inflation is expected to fall within the two year horizon.

•Retail Price Index (RPI) is a measure of inflation and represents the change in the prices of goods and services bought for the purpose of consumption in the UK.

•Underlying Rate of Inflation (RPIX) is the RPI excluding mortgage interest payments.

•Consumer Price Index (CPI) is a measure of the general level of price changes for consumer goods and services but excludes most owner/occupier housing costs such as council tax, dwelling insurance, rents, depreciation and the like. The Government has set a target for the twelve month increase in the CPI of 2% with a tolerance of ± 1% either way. As shown above, CPI inflation is expected to fall to below the 2% target level within the two year horizon.

3.5.9 CPI inflation was above the Government's target of 2% throughout 2012. The Bank of England's Monetary Policy Committee's (MPC) primary remit is to control inflation and this it achieves in the main by controlling interest rate movements. In spite of inflation persisting, with the recovery in the UK economy still fragile, the MPC has decided to leave the bank rate at 0.5% to aid recovery and to stimulate the economy. This rate has been in force since 5th March 2009 and is the lowest that it has been since the inception of the Bank of England.

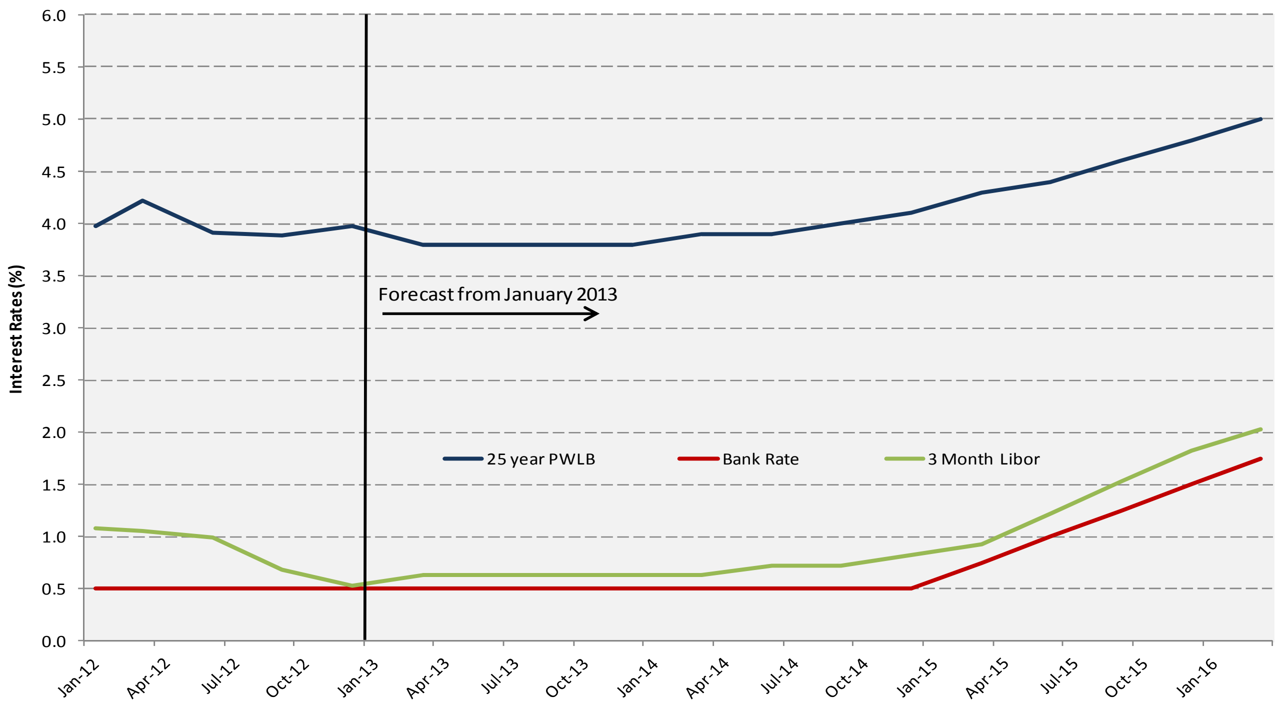
3.5.10 The market's view on interest rates for the UK as assessed by Sector, the Council's independent treasury advisers is as follows:

Sector's Interest Rate View														
	Now	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
5yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PWLB rate	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PWLB rate	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%

a. On **shorter-term interest rates**, the general opinion is that future reductions in bank rates are not expected. Interest rates are expected to remain at 0.50% for the whole of the financial year 2013/14 with a rise to 0.75% by March 2015.

b. On **longer-term interest rates**, the Public Works Loan Board (PWLB) rates for 25-year loans, currently at 3.70% are expected to increase to around 3.80% in the first half of 2013/14 and to be 3.90% at the end of 2013/14. The 50-year PWLB rate, which is currently at 3.90%, is expected to increase to 4.0% in the first half of 2013/14 and to be 4.10% by the end of the financial year. Chart 2 below graphically illustrates Sector's view on interest rates.

Chart 2: UK Interest Rates January 2011 to March 2015



Notes to Chart 2:

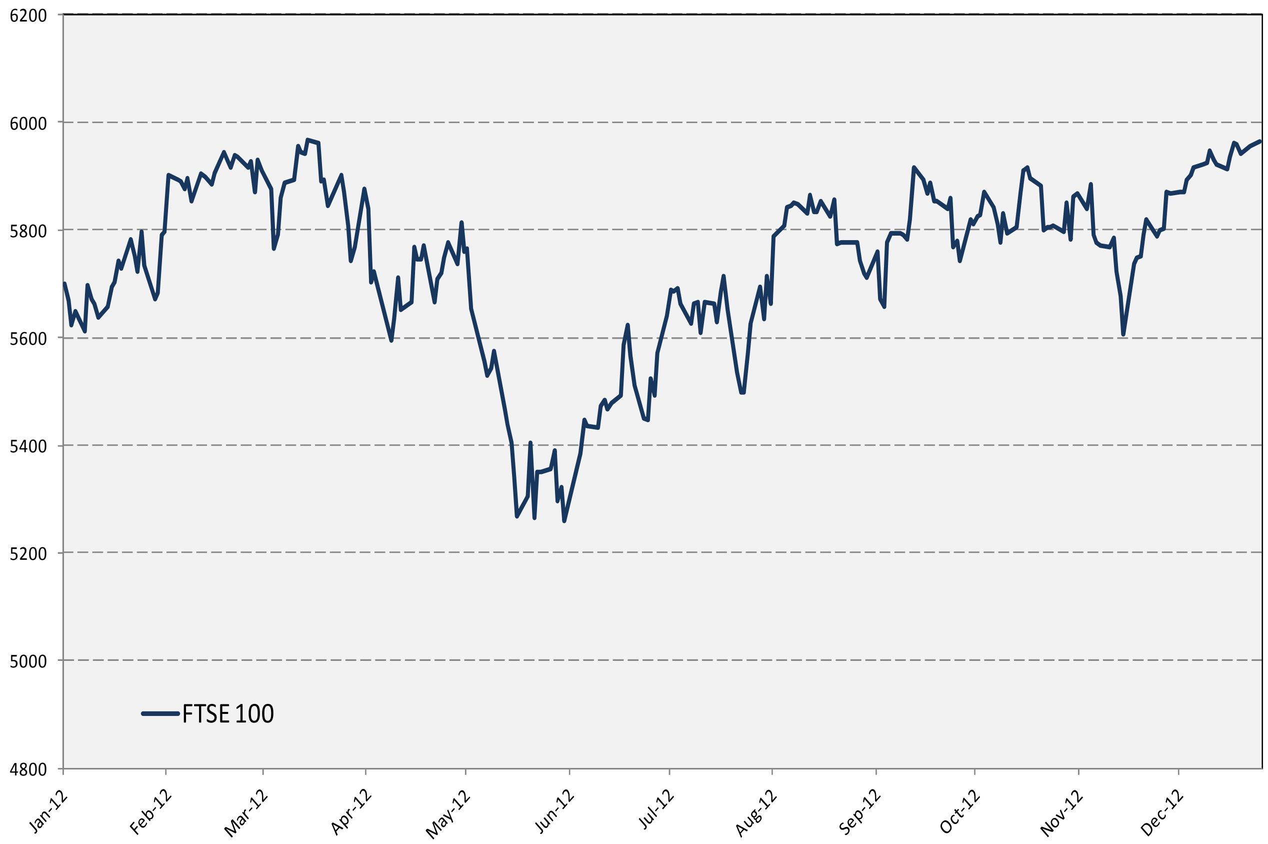
- London Interbank Offered Rate (LIBOR) is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. The 3 Month LIBOR rate reflects the interest rate that is offered by banks for cash deposits for 3 months.

- Bank Rate is the official rate as set periodically by the Bank of England's Monetary Policy Committee.

- Public Works Loan Board (PWLB) rate for 25 years is the interest rate at which local authorities can borrow from the PWLB over a term of 25 years

3.5.11 At the start of 2012, the FTSE100 Index stood at 5,699 and despite the political turmoil in the Middle East and the continuing financial problems of the Eurozone coupled with the possibility of further bailouts from the IMF and ECB, at year end the FTSE100 closed on a more positive note at 5,897 although the outlook for 2013 was left more uncertain by the ongoing problems in the US. Chart 3 below tracks the FTSE100 on a monthly basis over the course of 2012.

Chart 3: FTSE100 January 2012 to December 2012



3.6 **Annual Investment Strategy**

3.6.1 When deciding on its investment strategy, the Council will have regard to the CLG's Guidance on Local Government Investments issued in March 2004 and CIPFA's updated Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes 2011 in formulating the Council's investment strategy for 2013/14. This will broadly follow the same lines adopted for 2012/13 as detailed in the paragraphs below and in **Appendix B**.

3.6.2 All investments will be in sterling. The overriding policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities are:

a. The security of capital; and
b. The liquidity of its investments.

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

3.6.4 The Council will not engage in the borrowing of monies purely to invest or to lend in order to make a return as this is unlawful.

3.6.5 The investments, both specified and non-specified, that officers will be permitted to undertake in house are summarised below. Further details are provided in **Appendix B.**

a. **Specified Investments** - All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF).
- Term deposits with UK Government or with UK local authorities.
- Term deposits with credit - rated deposit takers (banks and building societies).
- Certificate of Deposits.
- AAA rated Money Market Funds.
- Bonds issued by multinational development banks.

b. **Non-specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies).
- Certificate of Deposits (CD).
- Callable deposits with credit rated deposit takers (banks and building societies).
- Forward deposits with credit rated banks and building societies.
- Bonds issued by multinational development banks.

3.6.6 **Investment Income Gross** - Based on cash flow forecasts for 2013/14, the Council anticipates its average cash balances for the year to be £150.0m, which includes the £117.2m of new borrowing to be undertaken in 2013/14. The overall balances include schools balances and HRA revenue balances for which an apportionment of investment interest earned is made. The net income then due to the General Fund is estimated at £1.971m for 2013/14.

3.6.7 All credit ratings in respect of financial institutions and the sovereign rating of the country that the Council invests monies in will be continuously monitored together with the limits imposed on amounts that can be invested and the duration of such investments. The Council is alerted to news relating to financial institutions and changes in ratings by its treasury management advisers as these occur and is therefore in a position to take appropriate action to protect the Council's interests.

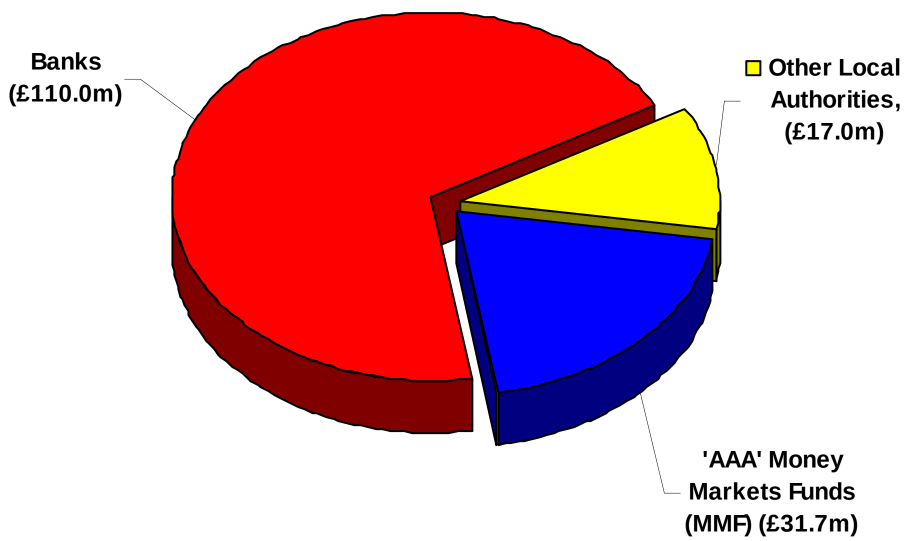
3.6.8 The Executive Director of Corporate Resources and Customer Services will be responsible for managing all investments within the limits as set out in **Appendix F** and in accordance with CIPFA's Treasury Management in the Public Services Code of Practice 2011 Edition.

3.6.9 Council Officers with the assistance of Sector have compiled and maintain a counterparty lending list based on FITCH credit ratings and other related information in force as at 31st December 2012. This is attached at **Appendix F** and the Council is recommended to approve this list of counterparties and the criteria set for inclusion on to both List A and List B. In respect of List A the credit limits that apply range from £15m to £25m depending on the institution and the credit limit for institutions on List B is set at £10m for each institution. The maximum duration of investments in the institutions on both lists will be subject to Sector's recommendations at the time that investments are made. Under the updated regulations the Authority is obliged to consider a range of different sources of information before taking a view on whether to invest with any counterparty. These include each of the rating agencies, the Credit Default Swap (CDS) spreads which gives early warning of likely changes in credit ratings as well as the sovereign rating for the country and other market driven information. Sector summarise these different views in forming an overall picture of the credit-worthiness of each, which is communicated to this Authority. FITCH ratings are the most valuable in this particular case as they focus more on European banks whereas Moody's and Standard & Poor's look more at the US.

3.6.10 In the current low interest rate environment, Money Market Funds (MMFs) can also be used effectively to provide returns in excess of straight overnight bank deposits and to provide for excellent liquidity if required. The Council utilises six MMFs, all of which are AAA rated by all of the three major ratings agencies – FITCH, Moodys and Standard & Poor's.

3.6.11 In addition, the Council will continue to lend to other UK local authorities and to the Debt Management Office, which effectively is lending to the Government. The Council's investments outstanding as at 31st December 2012 are detailed graphically as follows:

Temporary Investments as at 31st December 2012 (£158.7m)



3.6.12 Investments will be managed in-house by the Treasury Management Section who are supported by Sector, the Council's independent treasury management advisers. Mid-year and year end reports on treasury management are presented to Corporate Services Committee (CSC) in accordance with CIPFA's Code on Treasury Management 2011. In addition, periodic reports to Corporate Service Committee on investments will be made throughout the year.

3.6.13 As at 31st December 2012, short-term investment interest rates (1-3 months) were between 0.35% and 0.50% with longer term rates (up to 1 year) between 0.60% and 1.50%, with the part nationalised banks paying the higher rates. Investments will be made to take advantage of higher yields and to hedge against future decreases in bank rates. Daily liquidity requirements will be met by investing in the AAA rated MMFs. As investment rates are influenced throughout the year by the release of key items of data, there may be occasions when some investments will be pitched towards specific periods to take advantage of any unexpected higher rates resulting from data issued. In all cases Sector's recommended maximum investment durations for the counterparty concerned will be adhered to.

3.7 Treasury Limits

3.7.1 Section 3 of the Local Government Act 2003 requires the Council to set limits and to keep under review how much it can afford to borrow. The amounts so determined are to be set on a rolling basis, for the forthcoming financial year and two successive financial years, a period of three years in total from 2013/14 to 2015/16 and are termed:

1. The **'Operational Boundary for External Debt'**. This reflects the maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.

2. The **'Affordable Borrowing Limit'**. This limit represents an assessment of the maximum debt the authority may need to incur at any point throughout the year as determined in the Financial Strategy by the Executive Director of Corporate Resources and Customer Services.

3.7.2 The Executive Director of Corporate Resources and Customer Services will be responsible for setting the Council's Affordable Borrowing Limit. This limit requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax and housing rent levels is acceptable.

3.7.3 The Council's affordable borrowing limit has been estimated to be **£894.7m** for **2013/14**, **£959.9m** in **2014/15** and **£1,005.0m** in **2015/16** and is as detailed in **Appendix C**. These limits reflect the maximum amount the Council can borrow for capital and revenue purposes and allows for unexpected events for example a possible delay in the receipt of anticipated council tax, National Non-Domestic Rates (NNDR) direct debits, housing benefit subsidy or other government grant that had been notified to Council Officers in advance. The sum of £40m has been included in respect of revenue borrowing to cover the possibility of this shortfall. It reflects a level of borrowing which while not desirable is affordable in the short term to fund cash flow requirements of the organisation and any potential risks that may arise.

3.8 Debt Repayment and Rescheduling

3.8.1 The Public Works Loan Board will allow authorities to reschedule debt and award a discount or charge a premium as appropriate.

3.8.2 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20th October 2010 by a considerable widening of the difference between new borrowing and repayment rates, has meant the PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified if replacement PWLB refinancing is taken.

3.8.3 Financially, the optimum time to repay debt is when discounts on early repayment have reached a maximum or premiums a minimum and this will depend on the prevailing long- term interest rates. Officers will monitor interest rates throughout the year to identify rescheduling opportunities.

3.8.4 This report proposes that the Executive Director of Corporate Resources and Customer Services be given delegated authority to undertake necessary debt rescheduling following advice from the Council's independent treasury advisers and after taking into account the organisational considerations with regard to the HRA as set out in the Council's Financial Strategy.

3.9 Prudential Indicators

3.9.1 The Prudential Indicators for 2012/13 to 2015/16 are attached in **Appendix D** in accordance with the Prudential Code for Capital Finance in Local Authorities 2011 Edition.

3.9.2 The Executive Director of Corporate Resources and Customer Services is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy.

3.9.3 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Original 2001 Code was adopted on 12th March 2003 by Corporate Services Committee (Minute A28/03) and the Revised 2009 Code was adopted by Full Council on 1st March 2010 (Minute 6 Section 2 paragraph 1.1 to 1.9). The 2009 Code was updated in 2011 to allow for the use of derivatives in managing interest rate risk, as detailed in 2.2 of this report and Council is recommended to approve the adoption of this updated Code.

3.9.4 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a regular basis.

3.9.5 The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows:

1. The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence for 2013/14, **£194.288m of investment is planned**, £127.8m of which is to be financed from borrowing, resulting in a total level of debt of £865.412m that supports past investment in the infrastructure of the Borough (**see Appendix D**).

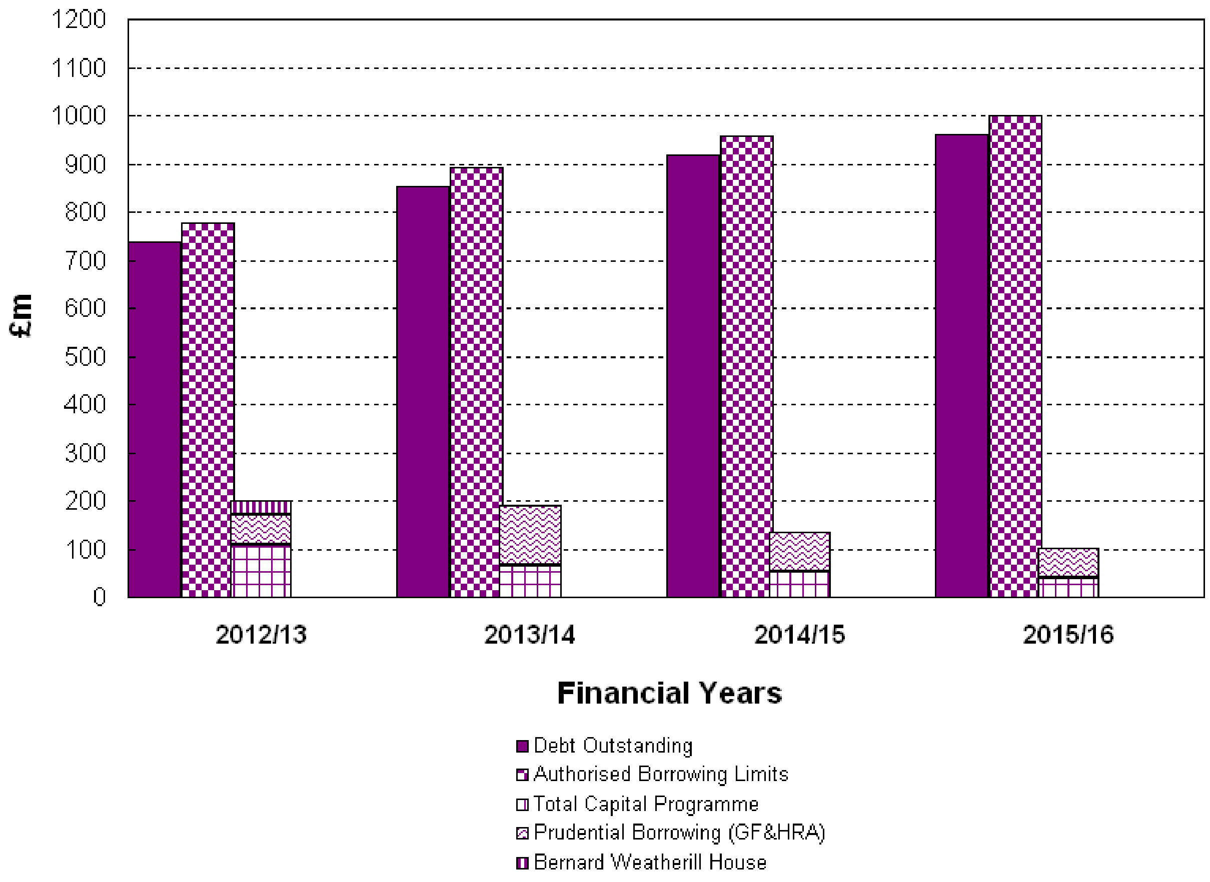
2. Apart from borrowing that is directly supported by government grant funding, the cost of new prudential borrowing to the Authority will be £13.00 per Band D council taxpayer in 2013/14. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.

3. The external debt indicators illustrate the calculation of the affordable borrowing limit.

4. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year, for reasons of limiting exposure to risk and guaranteeing adequate liquidity. The final indicator sets a profile for the maturing of new debt.

   These main indicators are featured below as follows:

Chart 4: Prudential Indicators for 2012/13 to 2015/16



3.10 **Minimum Revenue Provision**

3.10.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be contrary to the principle of matching benefits to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum

Revenue Provision (MRP), which was previously determined under Regulation, and will in future be determined under Guidance.

3.10.2 There is now a statutory duty, embodied within Statutory Instrument 2008 No.414 s 4, which lays down that:

'A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.'

NB: There is no MRP requirement for HRA borrowing.

3.10.3 Along with the above duty, the Government issued guidance in February 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to full Council for approval before the start of the financial year to which the provision will relate. The guidance offers four options under which MRP could be made and the Council's Minimum Revenue Provision Policy Statement for 2013/14 is attached as **Appendix E** of this report.

3.10.4 The Executive Director of Corporate Resources and Customer Services will be responsible for determining the accounting policies to be adopted for MRP and for the Council's annual Minimum Revenue Provision Policy Statement.

3.11 Conclusion

3.11.1 The Council's treasury advisers forecast that bank rates will remain at 0.50% for the whole of 2013/14. The longer term (25 years) PWLB interest rates, which currently are 3.70%, are expected to increase to around 3.80% in the first half of 2013 and to be 3.90% at the end of 2013/14.

3.11.2 Temporary investment rates are currently between 0.35% and 0.50% for short dates and between 0.60% and 1.50% for longer periods. It is anticipated that investment rates will be remain the same next year in line with bank rate expectations.

3.11.3 The UK economy is continuing to face very uncertain times. As indicated above, the Eurozone debt crisis and the UK Government's plans to stimulate economic recovery will have a significant impact on the future direction of the Council's policies and finances. The Executive Director of Corporate Resources and Customer Services will continue to monitor interest rates with the aim of taking advantage of any opportunities to borrow and invest after taking advice from the Council's independent treasury advisers in order to achieve the Council's long term Financial Strategy.

3.11.4 A glossary of terms associated with this report is attached in **Appendix H**.

4 CONSULTATION

4.1 Full consultation has taken place with the Council's treasury management advisers Sector in preparing this report.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 Revenue and Capital consequences of this report are dealt with within this report.

There are no additional financial considerations other than those identified in this report.

5.2 **The effect of the decision**

Approval to this report will ensure that the Council meets both its legal and financial management requirements in respect of Treasury Management.

5.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

5.4 **Options**
These are fully dealt with in this report

5.5 **Future savings/efficiencies**

This report sets out the Treasury Strategy and identifies that new loans and debt restructuring will only be undertaken on advice from our treasury management advisers.

Approved by: Richard Simpson, Director of Finance & Assets (Corporate Resources & Customer Services Department).

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Council Solicitor comments that there are no additional legal considerations beyond those detailed in the body of the report.

6.2 Approved by Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.

7 HUMAN RESOURCES IMPACT

7.1 There are no direct HR implications arising from this report.

7.2 Approved by Heather Daley, for Pamela Parkes, Director of Workforce and Community Relations**.**

8 EQUALITIES IMPACT

8.1 Consistent with the requirements of equal opportunities legislation including the Disability Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

8.2 The Council’s Capital and Revenue Budget 2013/14 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

9 ENVIRONMENTAL IMPACT

9.1 There are no Environment and Design impacts arising from this report

10 CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no Crime and Disorder reduction impacts arising from this report

11 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 The recommendations proposed are in accordance with the Treasury Management in the Public Services Code of Practice 2011 Edition and the Prudential Code for Capital Finance in Local Authorities 2011.

12 OPTIONS CONSIDERED AND REJECTED

12.1 Consideration and evaluation of alternative options are dealt with within this report.

CONTACT OFFICER: Derick Fernandes, Treasury Manager Ext 62526

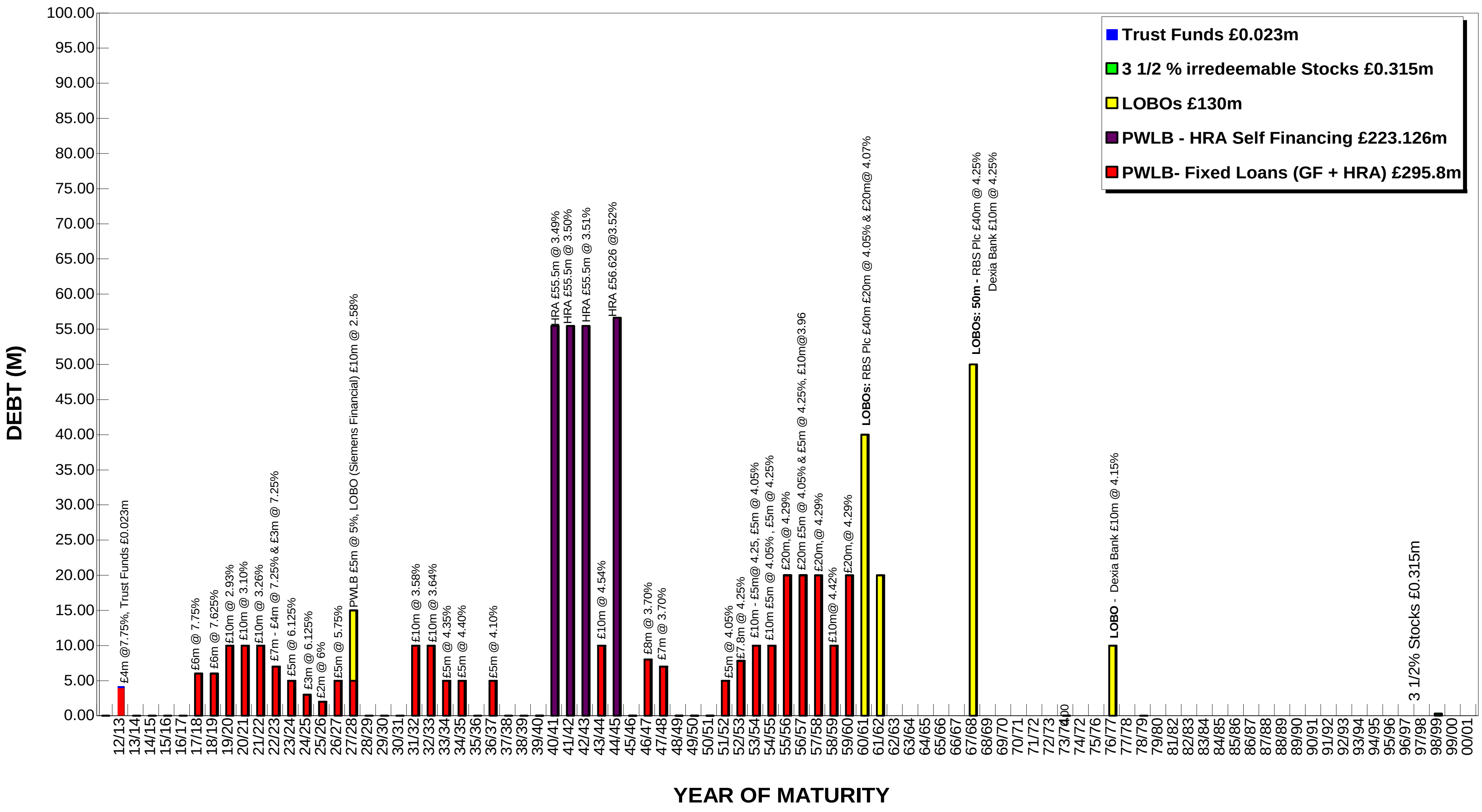
BACKGROUND DOCUMENTS:

CIPFA's Prudential Code for Capital Finance in Local Authorities – Fully Revised Second Edition 2009 and updated 2011 Edition.

CIPFA's Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes – Fully Revised Second Edition 2009 and updated 2011 Edition.

DCLG's Guidance on Local Government Investments March 2004.

LONDON BOROUGH OF CROYDON
DEBT MATURITY PROFILE AS AT 31/12/2012 (£649.264M)



Appendix A

APPENDIX B

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED AND NON SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) this facility is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months. The Council currently does not invest in this type of investment. It is recommended, however, that these can now be used and held until maturity, after consulting and taking advice from the treasury management consultants.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts. If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

APPENDIX C

AFFORDABLE BORROWING LIMITS 2013/14 TO 2015/16

	£m	£m	Limit £m
2013/14			
Estimated borrowing as at 31st March 2013 **(see Note 1 below)**		**737.5**	
Allowance for temporary revenue borrowing **(see Note 2 below)**		**40.0**	
Additional Borrowing 2013/14	**117.2**		
Maturities 2013/14	**(0.0)**		
Maturities refinanced 2013/14	**0.0**		
Additional borrowing	**117.2**	**117.2**	
		894.7	
Affordable borrowing limit 2013/14			**894.7**
2014/15			
Additional Borrowing 2014/15	**65.2**		
Maturities 2014/15	**(0.0)**		
Maturities refinanced 2014/15	**0.0**		
Additional borrowing	**65.2**	**65.2**	
		959.9	
Affordable borrowing limit 2014/15			**959.9**
2015/16			
Additional Borrowing 2015/16	**45.1**		
Maturities 2015/16	**(0.0)**		
Maturities refinanced 2015/16	**0.0**		
Additional borrowing	**45.1**	**45.1**	
		1005.0	
Affordable borrowing limit 2015/16			**1005.0**

Note

1. **The external debt outstanding as at 31/3/2013 includes the £223.126m that was borrowed from the PWLB for the HRA Self Financing settlement (see 3.2.2) and the balance of 2012/13's borrowing requirement which was outstanding as at 31/12/12 (see3.4).**

2. **This is the upper limit which assumes a worst case scenario for example in the event of the unexpected late receipt of major income such as Council Tax, NNDR, Housing Benefit subsidy or other government grants. The £40m represents the maximum in short term borrowing that is affordable and which could be undertaken to ease cash flow difficulties in such instances.**

APPENDIX D

PRUDENTIAL INDICATORS FOR 2012/13 – 2015/16

PRUDENTIAL INDICATORS	2012/13 Probable Outturn £m	2013/14 Forecast £m	2014/15 Forecast £m	2015/16 Forecast £m
1. Prudential Indicators for Capital Expenditure				
1.1. Capital Expenditure (includes expenditure funded by supported, unsupported borrowing and other sources)				
General Fund estimated as at 31/12/12	140.973	159.667	108.444	81.691
HRA as at 31/12/12	27.871	34.621	34.621	34.621
Bernard Weatherill House Project	32.024	0	0	0
Total as at 31/12/12	**200.868**	**194.288**	**143.065**	**116.312**
1.2. In year Capital Financing Requirement (see Table 3)				
General Fund - gross of Minimum Revenue Provision (MRP) costs.	90.181	120.3	79. 7	77.0
HRA	3.500	9.078	9.064	2.158
Total in year Capital Financing Requirement	**93.681**	**129.378**	**88.764**	**79.158**
1.3. Capital Financing Requirement as at 31st March – **balance sheet figures**				
General Fund (net of MRP costs)	428.0	545.000	600.000	640.000
HRA- [1] limit of HRA debt imposed by CLG (includes existing debt, the £223.126m HRA settlement sum and the allocated headroom allowance of £23.8m - see 3.2.3)	315.0	333.905[1]	333.905[1]	333.905[1]
Total	**743.0**	**878.905**	**933.905**	**973.905**
2. Prudential Indicators for Affordability				
2.1. Ratio of financing costs to net revenue streams				
General Fund	10.0%	11.5%	13.0%	14.5%
HRA	16.5%[2]	16.5%[2]	16.5%[2]	16.0%[2]
2.2. General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum)				
In year increase	£10.00	£13.00	£10.00	£10.00
Cumulative increase (includes MRP costs).		£45.00	£85.00	£115.00
2.3. HRA impact of additional borrowing (unsupported) on housing rents (per annum)	0	0	0	0
[2]The HRA's additional £223.1m debt costs are reflected in these ratios from 2012/13 onwards.				

APPENDIX D

PRUDENTIAL INDICATORS	2012/13 Probable Outturn £m	2013/14 Forecast £m	2014/15 Forecast £m	2015/16 Forecast £m
3. <u>Prudential Indicators for External Debt</u>				
3.1. Debt brought forward 1st April	619.264[3]	737.564	865.412	937.918
Debt carried forward 31st March [3]includes the £223.1m debt taken for the HRA self financing settlement on 28/3/12.	737.564	865.412	937.918	1001.323
Additional Borrowing	**118.300**	**127.848**	**72.506**	**63.405**
3.2. Operational boundary for external debt (excludes revenue borrowing) Borrowing	737.564	865.412	937.918	1001.323
Other long term liabilities	0	0	0	0
3.3. Total operational debt (excludes revenue borrowing)	737.564	865.412	937.918	1001.323
Add margin for cashflow contingency	40.000	40.000	40.000	40.000
Affordable Borrowing Limit (includes revenue borrowing)	777.564	905.412	977.918	1041.323
Authorised limit for external debt (includes revenue borrowing) Borrowing	777.564	905.412	977.918	1041.323
Other long term liabilities	0	0	0	0
Authorised Borrowing Limit	**777.564**	**905.412**	**977.918**	**1041.323**
4. <u>Prudential Indicators for Treasury Management</u>				
4.1. Borrowing limits - upper limit for fixed interest rate exposure expressed as:- Net principal re fixed rate borrowing / investments	777.564	905.412	977.918	1041.323
4.2. Borrowing limits - upper limit for variable rate exposure expressed as :- Net principal re variable rate borrowing / investments	20%	20%	20%	20%
4.3. Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	30%	30%	30%	30%

APPENDIX D

PRUDENTIAL INDICATORS		
4.4. Maturity structure of new fixed rate borrowing, if taken, during 2013/14	Lower limit	Upper limit
Under 12 months	0	20%
12 months to 24 months	0	20%
24 months to 5 years	0	30%
5 years to 10 years	0	30%
10 years and above	0	100%

APPENDIX E

NEW MINIMUM REVENUE PROVISION GUIDANCE OPTIONS AND THE MINIMUM REVENUE PROVISION POLICY STATEMENT 2013/14

GUIDANCE OPTIONS

The guidance offers four options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which capital expenditure is estimated to provide benefits. The guidance is not prescriptive on the options to be used save that it is the responsibility of each authority to decide upon the most appropriate method. As noted in the body of the report (paragraph 3.10.4), the Executive Director of Corporate Resources and Customer Services will be responsible for ensuring the accounting policies to be followed which will take into consideration the options below:

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted General Fund's (GF) Capital Financing Requirement (CFR) (i.e. adjusted for "Adjustment A" – see Glossary of Terms at **Appendix G**) on a reducing balance method (which in effect meant that MRP charges would theoretically stretch into infinity). The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet. This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate GF's CFR without any adjustment for "Adjustment A", or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option:-

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.

- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3. The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

THE MINIMUM REVENUE PROVISION POLICY STATEMENT 2013/14

The Council has implemented the new Minimum Revenue Provision (MRP) guidance from 2008/09, and will assess their MRP for 2013/14 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2013/14 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, **in accordance with option 1** of the guidance. Certain expenditure reflected within the debt liability at 31st March 2013 will under delegated powers be subject to MRP **under option 3** which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

The move to International Financial Reporting Standards (IFRS) requires some PFI schemes to be taken onto the balance sheet and may also require some leases to be re-classified from operating leases to finance leases. It is necessary to charge MRP for these items. However, where this happens, a part of the PFI unitary charge or lease rental will be taken to reduce the associated balance sheet liability rather than being charged as expenditure on the revenue account. The Council will make a MRP charge for these items in line with the statutory guidance which allows the MRP requirement to be met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. This approach is intended to have a neutral effect on the General Fund compared with the position before the IFRS changes for these schemes.

Croydon Council

Appendix F

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 31/12/12 (Criteria as per FITCH)

LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	1	AAA
RBS Money Market Fund	15,000,000	AAA				
Scottish Widows Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Insight Money Market Fund	15,000,000	AAA				
Morgan Stanley Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Plc **(Part Nationalised) (UK)**	25,000,000	A	F1	bbb	1	AAA
Lloyds TSB Bank Plc **(Part Nationalised) (UK)**	20,000,000	A	F1	bbb	1	AAA
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
HSBC Bank Plc **(UK)**	10,000,000	AA-	F1+	a+	1	AAA
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Standard Chartered PLC **(UK)**	10,000,000	AA-	F1+	aa-	1	AAA
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	1	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

Appendix F

LENDING LIST CRITERIA

LIST A

LIMITS TO INDIVIDUAL ORGANISATIONS

Maximum Investment Limit - £20m apart from the limits on the institutions noted below.

CREDIT RATINGS

FITCH Rating in each of the following categories:	F1+ on Short Term Rating AA or above Long Term Rating aa- or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating

APPROVED ORGANISATIONS MEETING CREDIT RATINGS

ALL NON – UK BANKS
ALL UK BUILDING SOCIETIES
UK BANKS RANKED
AAA RATED MONEY MARKET FUNDS - £15M LIMIT
DEBT MANAGEMENT OFFICE – NO LIMIT

APPROVED ORGANISATIONS NOT MEETING THE ABOVE CREDIT RATINGS

PART NATIONALISED UK BANKS – Limits as noted below:
ROYAL BANK OF SCOTLAND PLC - £25M LIMIT
LLOYDS TSB GROUP PLC - £20M LIMIT

LIST B

LIMITS TO INDIVIDUAL ORGANISATIONS

Maximum Investment Limit - £10m

CREDIT RATINGS

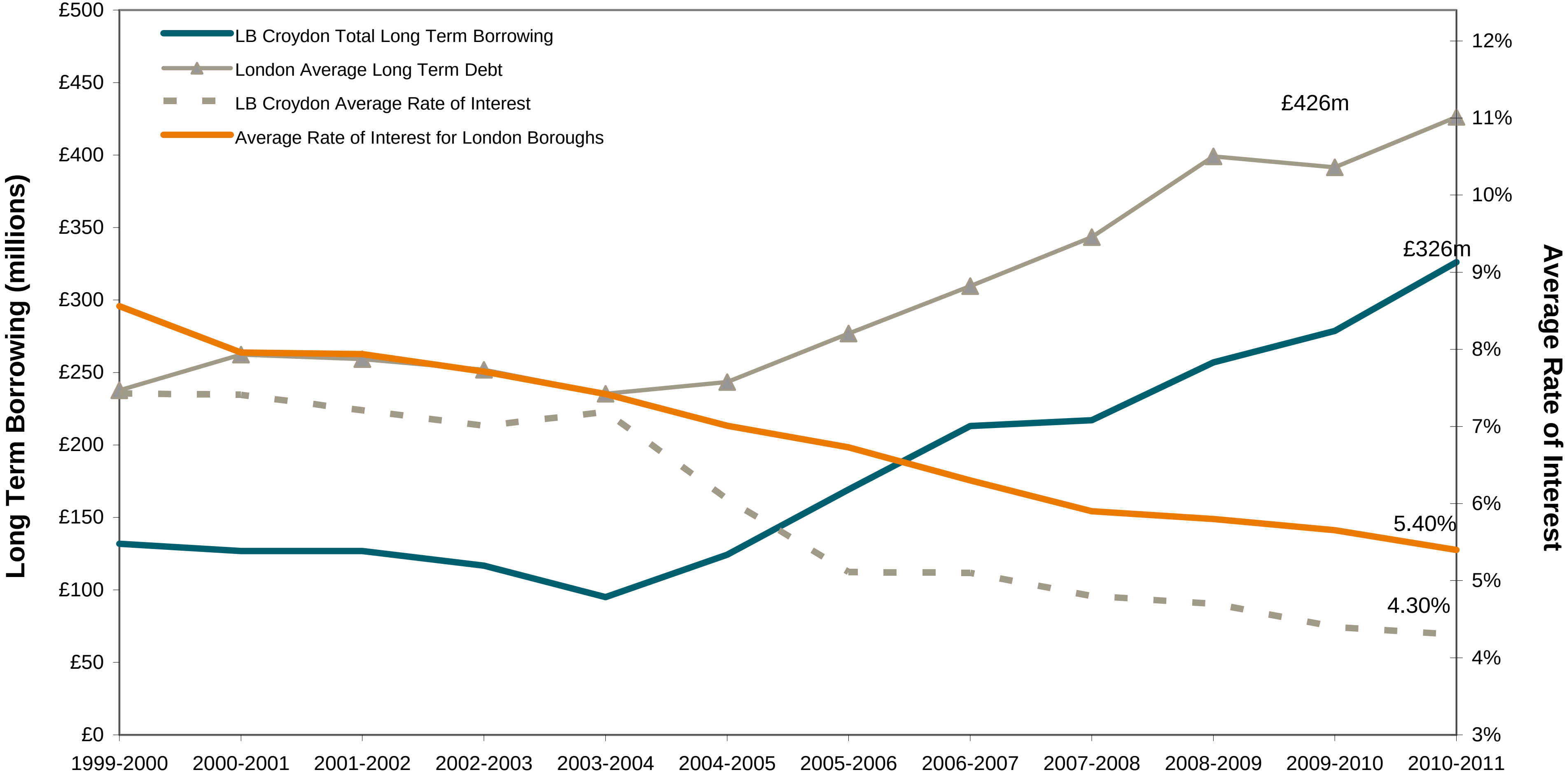
FITCH Rating in each of the following categories:	F1+ on Short Term Rating AA- or above on Long Term Rating a+ or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating

APPROVED ORGANISATIONS MEETING CREDIT RATINGS

ALL NON – UK BANKS
ALL UK BUILDING SOCIETIES
UK BANKS
ALL UK LOCAL AUTHORITIES

Croydon Council

Long Term Borrowing
Comparison between LB Croydon and London Average



Appendix G

Croydon Council

APPENDIX H

GLOSSARY OF TERMS USED IN THE TREASURY STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT & ANNUAL INVESTMENT STRATEGY 2013/14

Affordable Borrowing Limit and Authorised Limit for external debit	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unexpected events. It reflects a level of borrowing which, while not desirable, is affordable in the short term. This limit reflects the temporary nature of the borrowing.
Borrowing for Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the Government will give revenue support grant and specific grants. Additional borrowing the Council may wish to undertake, but for which there will be no financial contribution through the Government's grant system.
CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition	The professional code governing Treasury Management in the Public Services.
Capital Financing Requirement	The authority's underlying need to borrow.
Lenders Option / Borrowers Option Loans (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercises the option to change the interest rate the borrower then has the option to accept the new terms or repay the loan with no penalty.
Net Revenue Stream (NRS)	The NRS for the General Fund is shown in the Council's Revenue Budgets as the 'Budget Requirement'. The NRS for the Housing Revenue Account is the amount to be met from rental and other income as shown in the HRA accounts.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.

APPENDIX H

Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans.
"Adjustment A"	The Prudential System came into force in 2004/05. The former system relied on the maintenance of credit ceilings for both GF and HRA to determine the MRP due for both. The new Prudential system uses figures derived from the authority's consolidated balance sheet to calculate MRP due. A safeguard was built into the new system to ensure that the transition did not lead to any artificial increase in MRP liability. This was based on calculating an amount known as "Adjustment A".