Agenda Item No.9

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

Audit and Standards Committee – 14th February 2013

Report of the Treasurer

Treasury Management

Purpose of Report

1. The purpose of this report is:

   - to outline treasury activity in the year 2012/13 up to the end of December;
   - to seek approval of the Treasury Strategy Statement 2013/14

Background

2. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks

3. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund *(WMDAF)*. We are responsible for administering capital funding of £759m on our own account and another £198m on behalf of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

4. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. The Bank Rate has remained at 0.5% since March 2009 and is considered likely to stay at that level in the medium term.

Treasury Activity 2012/13 - Dudley fund

5. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2012/13 approved by Audit Committee and Full Council in February 2012. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.

6. Our investments up to the middle of January have averaged £36.9 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.61%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2012/13. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID[1] for the year to the end of December has been 0.50%. Our investment activity for 2012/13 (to date) is set out in more detail in **Appendix 1**.

7. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. We have an account with the Government's Debt Management Office which provides maximum security but low returns. We are only using this account where we cannot place funds with a bank that meets our strict criteria. The majority of short-term investments are in variable rate call accounts with approved counterparties, which offer a relatively good rate of return compared to fixed term deposit accounts as well as higher liquidity.

8. The Council set up a custody account with the city investment firm King & Shaxson in September 2012. This enables the Council to use a number of approved investment instruments as outlined in the Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds. By establishing custody arrangements, the Council will be better placed to consider the use of alternative investment instruments in response to evolving credit conditions. Up to the middle of January, this account had been used once to invest in a Certificate of Deposit of £3m with Nationwide Building Society for one month at an interest rate of 0.40%.

9. The average value of long-term borrowings up to the end of December 2012 was £543.9 million. The average rate of interest on these borrowings was 4.10% and they were due to mature on dates ranging from the current year to 2061.

10. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated during 2012-13 from 3.96% to 4.44% and was standing at 4.32% in early January.

11. From 1 November 2012, the Government reduced by 20 basis points (0.2%) the interest rates on loans from PWLB to local authorities who provided the required information on their plans for long-term borrowing and associated capital spending (the certainty rates). Dudley is eligible to apply for these certainty rates at 0.2% below the rates quoted in paragraph 9.

[1] 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

12. In December 2012 the Government announced the introduction of the "Project Rate" for PWLB borrowing from November 2013. It has been set at 40 basis points below standard PWLB rates. The amount offered at this discounted rate will be capped at £1.5bn (outside London) and is linked to single projects identified by Local Enterprise Partnerships (LEPs).

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13. It has not as yet been necessary to undertake any new long-term borrowing due to favourable cash flow, but we are monitoring interest rates and cash flow closely.

14. It has not been necessary to undertake any short-term borrowing in the current year to date. Daily cash flow has been managed through the use of call accounts.

Treasury activity 2012/13 - WMDAF

15. Having consulted with our advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt. The latest estimate of interest payable by members of the WMDAF in 2012/13 is 6.5%.

Treasury Strategy Statement 2013/14

16. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The proposed Treasury Strategy Statement for 2013/14 is attached as **Appendix 2**.

17. Our expectations for interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates.** The Bank Rate will remain at 0.5% through 2013/14 and probably until the end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2013/14 from 2.80% to 2.90%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2013/14 from 3.30% to 3.40%

18. The Local Government Act 2003 introduced a system of "prudential borrowing" allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code which specifically requires us to set a number of prudential indicators. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

19. Councils' investment activities are regulated by government guidance issued under Section 15(1)(a) of the Local Government Act 2003. Section 5 of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the government guidance and revised CIPFA Code of Practice on Treasury Management in the Public Services 2011.

20. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and Appendix 2.

<u>Finance</u>

21. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. Budgets were amended in October to reflect a surplus of £1.8m compared to the original budget for 2011/12. This surplus was mainly due to variations in cash flow. .

<u>Law</u>

22. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

<u>Equality Impact</u>

23. The treasury management activities considered in this report have no direct impact on issues of equality.

<u>Recommendation</u>

24. That the Committee:

- notes the treasury activities in 2012/13 outlined in this report;
- approves the Treasury Strategy 2013/14 attached as Appendix 2;
- authorises the Treasurer to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;
- refers all of the above for approval by full Council at its meeting on 25th February

…………………………………………..
Iain Newman
Treasurer

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List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.
- The Local Government Act 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)
- Guidance on Local Government Investments Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003
- Code of Practice for Treasury Management in the Public Services (CIPFA)

Appendix 1

Investment Activity 2012/13 to 7th January 2013

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	18	5.5	0.41	20
Debt Management Office	61	8.4	0.25	11
Nationwide Building Society	7	3.2	0.40	23
Bank of Scotland Call Account	N/A	9.3	0.75	Call
Yorkshire Bank Call Account	N/A	0.01	0.50	Call
Santander Call Account	N/A	0.7	0.80	Call
Nat West Call Account	N/A	1.6	0.80	Call
HSBC Call Account	N/A	7.7	0.32	Call
Salford City Council *	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2011/12 and were due to mature in the current financial year.

* This is a fixed term deposit that was made in 1985 and is due to mature in 2020.

Appendix 2

Note:
It is important to note that the Treasury Strategy Statement is adopted by the Council, based on advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

DUDLEY METROPOLITAN BOROUGH COUNCIL
TREASURY STRATEGY STATEMENT 2013/14

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2013/14. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of Members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential and treasury indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities
- treasury implications of HRA Self Financing

2.0 Current Portfolio Position

2.1 The Council's estimated debt position as at 1st April 2013 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	535.0
- PWLB variable rate	13.0
- Market fixed rate	6.8
- Market LOBO[2]	10.0
Short-term debt	50.2
Total debt	615.0

2.2 The average rate of interest on the above debt is expected to be 3.81%.

[2] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

2.3 The average level of investments held by the Council during 2012/13 to early January 2013 was £36.91m. Cash flow monitoring indicates that long term borrowing may be required in the next 12 months.

2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2013 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	177.7
- Market fixed rate	6.8
- Market LOBO[3]	10.0
Short-term debt	0
Total debt	194.5

2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.5%.

3.0 Prudential & Treasury Indicators

3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enable the authority to assess affordability and prudence. The following indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 Treasury Indicators in the Prudential Code

3.3 The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

These external debt indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant. Actual external debt represents the closing balance for borrowing and other long-term liabilities.

[3] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2007 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

	2011/12	2012/13 Revised	2013/14 Revised	2014/15 Revised	2015/16
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	946	951	935	914
Other long term liabilities	n/a	37	45	48	51
Total	n/a	**983**	**996**	**983**	**965**
Operational boundary:					
Borrowing	n/a	839	842	830	822
Other long term liabilities	n/a	37	45	48	51
Total	n/a	**876**	**887**	**878**	**873**
Actual External Debt:					
Borrowing	750	n/a	n/a	n/a	n/a
Other long term liabilities	36	n/a	n/a	n/a	n/a
Total	**786**	**n/a**	**n/a**	**n/a**	**n/a**

Gross Debt and the Capital Financing Requirement:

This is a new key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Council has met this requirement in 2012/13, and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Treasury Indicators in the Treasury Management Code

CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

	2012/13	**2013/14**	**2014/15**	**2015/16**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

Maturity structure of borrowing and investments

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

	Upper limit %	**Lower limit %**
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

Upper Limit for total principal sums invested over 364 days

The purpose of the limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

4.0 Prospects for Interest Rates

4.1 The Council has appointed Arlingclose as its treasury advisor and has made use of their services in formulating a view on interest rates.

4.2 Our expectations interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates.** The Bank Rate will remain at 0.5% through 2013/14 and probably until the end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2013/14 from 2.80% to 2.90%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2013/14 from 3.30% to 3.40%

5.0 Economic Background

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.

- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.

- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining in its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.

- In the absence of large, unexpected decline in growth, Quantitative Easing (QE) is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.

- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.

- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.

- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning to haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

6.0 Annual Investment Strategy

6.1 Our investment activities are subject to government guidance issued under Section 15(1) (a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the guidance.

6.2 In accordance with Investment Guidance issued by the Department of Communities and Local Government (DCLG) and best practice the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yields earned on investments is important but are secondary considerations.

6.3 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some countries the extent and implications of national debt built up have lead to a sovereign debt crisis and a banking crisis, with the outcome still largely unknown. It is against this backdrop of uncertainty that the Council's investment strategy is framed.

6.4 *Strategy for "specified investments"*

6.4.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.
d) The investment satisfies *either* of the following conditions:

    I. The investment is made with the UK government, a local authority, a parish council or a community council. or
    II. The investment is made with a body or in an investment scheme of high credit quality

6.4.2 For the purpose of this strategy a body or investment scheme is deemed to be of high credit quality if it has minimum short-term ratings of F1 (Fitch), P1 (Moody's), and A1 (Standard and Poors), and a support rating of 1 from Fitch.

6.4.3 As well as credit ratings the Council and its advisors (Arlingclose Ltd) analyse and constantly monitor the following factors in determining high credit quality when selecting countries and financial institutions for suitable investment :

- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

6.4.4 Due to the current period of stress in financial markets, the Council's investments must also satisfy all the following more stringent conditions:

- The Council will not invest in non-UK institutions

- Investments of a maximum duration of 3 months are permitted with UK institutions which have the highest short term credit rating from all three main credit rating agencies

- Investments of a maximum duration of 1 month are permitted with UK institutions which meet the criteria of 6.4.2 above but do not have the highest short term credit rating from all three main credit rating agencies

6.4.5 If conditions in the financial markets worsen during 2013-14 or other factors indicate that increased security of Council funds is required, the Treasurer may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

6.4.6 The Council banks with HSBC. At the current time, it does meet the minimum credit criteria and has the highest credit rating for a UK bank. Even if the credit rating falls below the Council's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

6.5 *Strategy for "non-specified investments"*

6.5.1 Non-specified investments are those that do not meet the criteria in 6.4.1 above.

6.5.2 In determining which categories of non-specified investments may prudently be used, we will take account of:

- Advice from our treasury management consultants at Arlingclose.

- The views of experts at other councils.
- To the extent that investments are for a duration of 12 months or more, long-term credit ratings as determined by Fitch.

6.5.3 Due to the current period of stress in financial markets, the Council will not place its funds in non-specified investments.

6.6 *Liquidity of investments*

6.6.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money in a future year that we would not otherwise have had to borrow.

6.6.2 We will ensure that, at the time of making a new investment, long-term investments (investments of one year's duration or more) constitute no more than 50% of our total pool of investments.

6.7 *Limit on investments with a single institution*

6.7.1 Investments with a single institution or group of banks should not exceed 20% of our total pool of investments or £5million (whichever is greater).

6.8 *Policy on the use of external service providers*

The Council uses Arlingclose Ltd as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.0 Policy on the Use of Financial Derivatives

7.1 A financial derivative is a contract whose value is based on, or "derived" from, an underlying financial instrument such as a loan. Local authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

7.2 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

7.3 The Council does not intend to use standalone financial derivatives such as (swaps, forwards, futures and options). Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but no change in strategy will be made without full Council approval.

8.0 Requirements and Strategy for Long-Term Borrowing

8.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. Due to the current period of stress in financial markets, we will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

8.2 Our interest rate expectations (outlined in 4.2) provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.

- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2013/14, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

8.3 Against this background caution will be adopted with the 2013/14 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. In conjunction with the treasury advisers, we will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to growth rates remaining low or weakening, then long term borrowings will be postponed

8.4 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2013-14. As a result, we do not anticipate that further long-term borrowing will be needed during 2013/14. We shall take out long term borrowing on West Midlands debt when it is economically advantageous to do so.

9.0 Debt Rescheduling and Premature Repayment Opportunities

9.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in 8 above;
- in order to enhance the balance of the long-term portfolio *(by amending the maturity profile and/or the balance of volatility).*

9.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.

10.0 HRA Self Financing

10.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

10.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

10.3 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

10.4 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. An average of this notional balance will be calculated annually and interest transferred between the General Fund and HRA at an internally determined rate of interest.

11. Training

11.1 CIPFA's Code of Practice requires the Treasurer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Relevant training is provided by Arlingclose to the members of the Audit Committee.

11.2 The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

12 Treasury Management Advisors

12.1 The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events for officers and members

The Authority maintains the quality of the service with its advisors by holding regular meetings and tendering periodically for the provision of treasury management advice