Cambridge City Council **Item**

To:	The Executive Councillor for Finance & Resources: Councillor George Owers
Report by:	Caroline Ryba – Head of Finance & S151 Officer
Relevant scrutiny committee:	Strategy & Resources Scrutiny Committee 20/10/2014
Wards affected:	All Wards

MID-YEAR FINANCIAL REVIEW (MFR) 2014/15 TO 2017/18 - TREASURY MANAGEMENT HALF YEARLY UPDATE REPORT

Key Decision

1. Executive summary

1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce a half yearly strategy treasury report reviewing treasury management activities.

1.2 This report complies with the CIPFA Code of Practice on Treasury Management (February 2011) and the CIPFA Prudential Code for Capital Finance in Local Authorities (May 2013 edition).

1.3 This report includes any changes to counterparty limits, the use of other financial instruments, capital activity and prudential & treasury indicators, since they were last reported within the Outturn Report for 2013/14, on 14th July 2014.

2. Recommendations

2.1 The Executive Councillor is asked to recommend to Council amendments to the Counterparty list, which highlight changes in Capita's (Council's Treasury Adviser) credit criteria, within Appendix B. These are summarised below:-

- To name 'smaller' building societies with an asset value greater than £5billion; and;
- Show the limits for 'smaller' building societies meeting these criteria.

2.2 The Executive Councillor is asked to recommend to Council to add equity investment in the Local Capital Finance Company, the legal entity of the UK Municipal Bonds Agency, to non-specified investments within the Council's investment strategy.

2.3 The Executive Councillor is asked to recommend to Council changes to the estimated Prudential & Treasury Indicators for 2014/15 to 2017/18, inclusive, as set out in Appendix G.

2.4 The Executive Councillor is asked to recommend to Council:-

- approval of a capital investment of up to £50,000 in the equity share capital of the Local Capital Finance Company; and;
- delegation of the final decision on investment to the Executive Councillor for Finance and Resources in consultation with the Head of Finance.

3. Background

3.1 Treasury Management Activities

The Council is required to comply with CIPFA Prudential Code (May 2013 edition) and the CIPFA Treasury Management Code of Practice (Revised November 2011). The Council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a three year period and should ensure that its capital plans are affordable, prudent and sustainable.

The Council is currently supported in its treasury management functions by specialist advisors who are Capita Asset Services. Capita's services include the provision of advice to the Council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposit and borrowing interest rates and the economy.

3.2 Borrowing Policy

Borrowing Policy Statement

The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1st April 2004.

The Council anticipates borrowing £2.804m within the General Fund during 2014/15 and £9.930m for the HRA (£4.469m during 2014/15 and £5.469m during 2016/17). This anticipated borrowing is for the Clay Farm Community Centre and the Affordable Housing Projects, respectively. These schemes are contained within the Council's Capital Programme. This borrowing requirement may be met through internal borrowing (for example utilising 'earmarked reserves' set aside for future use) rather than using external borrowing.

Current Debt as at 31st March 2014

The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	Principal (£)
Authorised Borrowing Limit (A)	250,000,000
HRA Debt Limit (B)	230,839,000
2011/12 Borrowing (for HRA Self-Financing, C)	213,572,000
General Fund Headroom (A minus B)	19,161,000
HRA Headroom (B minus C)	17,267,000
2012/13 Borrowing	NIL
2013/14 Borrowing	NIL
2014/15 Borrowing	NIL
Total Current Headroom (A minus C)	36,428,000

At present the only debt held by the authority relates to the twenty loans from PWLB for self-financing the HRA. These are shown in the table, below:-

Loan Ref:	**Start Date**	**Principal (£)**	**Interest**	**Maturity Date**	**Term (Years)**
1	28-Mar-12	10,678,600	3.46%	28-Mar-38	26
2	28-Mar-12	10,678,600	3.47%	28-Mar-39	27
3	28-Mar-12	10,678,600	3.48%	28-Mar-40	28
4	28-Mar-12	10,678,600	3.49%	28-Mar-41	29
5	28-Mar-12	10,678,600	3.50%	28-Mar-42	30
6	28-Mar-12	10,678,600	3.51%	28-Mar-43	31
7	28-Mar-12	10,678,600	3.52%	28-Mar-44	32
8	28-Mar-12	10,678,600	3.52%	28-Mar-45	33
9	28-Mar-12	10,678,600	3.52%	28-Mar-46	34
10	28-Mar-12	10,678,600	3.52%	28-Mar-47	35
11	28-Mar-12	10,678,600	3.53%	28-Mar-48	36
12	28-Mar-12	10,678,600	3.53%	28-Mar-49	37

Loan Ref:	Start Date	Principal (£)	Interest	Maturity Date	Term (Years)
13	28-Mar-12	10,678,600	3.53%	28-Mar-50	38
14	28-Mar-12	10,678,600	3.53%	28-Mar-51	39
15	28-Mar-12	10,678,600	3.52%	28-Mar-52	40
16	28-Mar-12	10,678,600	3.52%	28-Mar-53	41
17	28-Mar-12	10,678,600	3.51%	28-Mar-54	42
18	28-Mar-12	10,678,600	3.51%	28-Mar-55	43
19	28-Mar-12	10,678,600	3.51%	28-Mar-56	44
20	28-Mar-12	10,678,600	3.50%	28-Mar-57	45
	Total:-	**213,572,000**	**-**	**-**	

This debt was financed entirely by fixed rate maturity loans which were in line with the assumptions made within the HRA's 30 year Business Plan.

The Council's debt portfolio is shown graphically at Appendix A. The graph highlights that HRA debt is reducing, and shows the HRA debt will be fully repaid by 2056/57. This assumes that no rescheduling of HRA debt takes place before then. The Council's Authorised Borrowing limit, Headroom (both HRA & General Fund), HRA 'cap' and Capital Financing Requirement, are also shown.

3.3 Minimum Revenue Provision Policy

This provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a policy by which MRP will be determined. The Council plans to borrow £2.804m during 2014/15 for the Clay Farm Community Centre, which is a General Fund capital scheme. The Council has determined that a prudent level of MRP, for this purpose, is £112,000 per annum from 2015/16. This MRP has been calculated using Method 3 (the Asset Life Method), as prescribed within the MRP Guidance, as issued by DCLG (in February 2012).

A MRP does not extend to housing assets. However, the Council anticipates borrowing £4.469m during 2014/15 & £5.469m for the HRA (the Affordable Housing Projects) and is required to charge depreciation instead (due to Housing Reform from April 2012) on its housing assets. This will have a revenue impact. Any adverse impacts will be addressed through regulations that will allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation, for the first five years.

3.4 **The Council's Capital Expenditure and Financing 2014/15 to 2017/18**

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

Details on capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed. It also includes any re-phasing during 2014/15 and conforms to the agreed Capital Plan.

	2014/15 Probable Outturn £'000	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
General Fund Capital Expenditure	29,385	8,571	2,516	1,185
HRA Capital Expenditure	31,675	19,811	26,394	20,830
Total Capital Expenditure	**61,060**	**28,382**	**28,910**	**22,015**
Resourced by:				
• Capital receipts	1,009	548	25	0
• Other contributions	52,778	27,834	23,424	22,015
Total available resources for financing capital expenditure	**53,787**	**28,382**	**23,449**	**22,015**
Un-financed capital expenditure	**7,273***	**0**	**5,461***	**0**

*£2.804m (Clay Farm Community Centre, 2014/15), £9.930m in total (for Affordable Housing Projects, with £4.469m in 2014/15 & £5.461m in 2016/17)

4. The Public Works Loans Board (PWLB) Certainty Rate

The Government announced in 2012 that a 0.20% discount on loans from the PWLB would apply to eligible local authorities.

Eligibility for this discount rate will be available to English, Scottish and Welsh local authorities operating the CIPFA Prudential Code (such as this Authority) and the discount rate will be available from 1st November 2012 until 31st October 2015 on 'new' borrowing.

Further to this Council's application, the Department for Communities and Local Government (DCLG) has approved our eligibility, and therefore we can use the preferential PWLB interest rate during the dates as highlighted, above.

5. The Council's Prudential and Treasury Management Indicators

The Council's Prudential and Treasury Management Indicators are as follows:-

Capital Financing Requirement & Cumulative External Borrowing	**2014/15 Probable Outturn £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
General Fund Capital Financing Requirement	3,965	3,853	3,741	3,326
HRA Capital Financing Requirement	219,217	219,217	224,678	224,981
Total Capital Financing Requirement	**223,182**	**223,070**	**228,419**	**228,307**
Movement in the Capital Financing Requirement	**7,273***	**(112)****	**5,349***	**(112)****
Estimated External Gross Debt/Borrowing (Including HRA Reform)	220,845	220,845	226,306	226,306
Authorised Limit for External Debt	250,000	250,000	250,000	250,000
Operational Boundary for External Debt	223,182	223,070	228,419	228,307

*£2.804m (Clay Farm Community Centre, 2014/15) & £9.930m (Affordable Housing Project, with £4.469m in 2014/15 & £5.461m in 2016/17)
**General Fund MRP

6. Future Treasury Management Plans

6.1 Introduction

The Council takes a cautious approach within its Treasury Management Strategy. However, due to the worsening market conditions, counterparty limits and the extension of financial instruments have been increased at Council on 24th July 2014, to maintain yield levels with no compromise to risk. The increases which were agreed by Council on the above date, are summarised below:-

- Increased Counterparty limits to £20m (£30m for a Banking Group);
- Increased the limits for longer term deposits to £30m;
- Included other Building Societies on Counterparty list;
- Included suggested foreign banks on Counterparty list; and;
- Included deposits in the CCLA Local Authority Property Fund

The detailed counterparty list with limits is shown within Appendix B.

Other UK Building Societies

Additionally, Appendix B has been updated showing the following asset values and deposit limits for Building Societies. These values were deemed to be the most prudent minimum levels to use for this sector. The limits below clarify how our intended deposits with Other UK Building Societies will apply in practice:-

1. Asset value greater than (>) £5,000m – £2m limit;
2. Asset value > £50,000m - £5m limit; and;
3. Asset value > £100,000m - £20m limit

Bank of England's Monetary Policy Committee (MPC)

Furthermore, the Bank of England Monetary Policy Committee (MPC) publicised on 21st August 2014 that the base rate would rise sooner than originally forecast. However, 2 Members out of 9, voted to increase the base rate now, signalling a base rate rise is fairly imminent.

6.2 Predicted Cash Balance Deposits – 2014/15 to 2017/18

The table below shows the Council's predicted cash balances apportioned between short term (up to 3 months), medium term (up to 1 year) and long term (core cash, up to 5 years) deposits.

SUMMARY DEPOSIT ANALYSIS	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Short Term	37,400	40,100	44,100	48,800
Medium Term	20,700	22,200	24,400	27,000
Long Term	29,900	32,100	35,300	39,100
Estimated Working Capital (to cover day to day expenditure)	9,600	9,600	9,600	9,600
TOTAL PREDICTED CASH DEPOSITS:-	**97,600***	**104,000***	**113,400***	**124,500***

***Based on current estimated net cash inflow trends**

The above table is represented graphically at Appendix C (and includes capital expenditure predictions for additional information). It can also be seen that our cash balances (short, medium & long term monies) are increasing over time. This makes it particularly challenging where to deposit the Council's available funds. The following funds and other financial instruments have been used that supplement our treasury policy and are shown in paragraph 6.3, below:-

6.3 **Other Financial Instruments Currently Used**

Custodian of Funds

Customers can purchase gilts, treasury bills and certificates of deposit from them, and obtain a better interest return, and not compromising the risk of using these financial products. This Council would only deal with Custodian's that are AAA rated.

Certificates of Deposit (CDs)

These are certificates issued by a bank to raise funds. They offer a higher rate of return at low risk, particularly if deposits are longer term.

Money Market Funds (MMF)

These are funds managed by Fund Managers for a range of counterparties, which spread the risk for the Council. The resources available to the MMF are pooled (thus increasing cash available for deposit), which means the Council will obtain a higher rate of interest return than other deposits. The Council would only deposit in MMFs that are rated AAA. The Council has commenced using a MMF portal which further diversifies our ability to use these funds.

7. Deposits

The Council's balances, both earmarked and un-earmarked, have generally increased during the last year mainly as a result of Housing Reform. This change in regulations means the Council does not pay a subsidy into the National Pool, allowing its rents to be kept.

It is anticipated, however, that reserves, such as the Repairs & Renewals Fund, will be utilised to fund the Council's strategic plans.

An analysis of the sources of the Council's deposits is shown at Appendix D.

8. Investment in UK Municipal Bonds Agency

8.1 The creation of a Bonds Agency, controlled and owned by local authorities, is expected to reduce the debt financing costs for its borrowing members and provide a collective investment vehicle that would secure good returns for its investing members whilst minimising risk. The new agency has successfully raised equity of £4.5m from 37 local authorities and the LGA to cover set up costs. It is now looking to raise a further £3.5 - £5.5m to complete the development of the agency, to undertake its first bond launch and to provide adequate working capital. The agency is currently appointing a permanent board and identifying an initial set of borrowers for the first bond launch. It is anticipated that, once in operation, the Agency will be able to pay a dividend to its shareholders commensurate with the level of risk and financial commitment.

Further information is provided in Appendix E, which contains a set of Q&A's published on the LGA website. The full business case and further information on the agency is available at http://www.local.gov.uk/finance/-/journal_content/56/10180/3684139/ARTICLE.

Shares are available in tranches of £10,000. Currently investors have committed to amounts ranging from £10,000 to £200,000+, the size of the investment typically reflecting the size of the local authority concerned. Approval is being sought to invest up to £50,000 in the agency.

There are a number of risks that crystallise from participating in the share offering that could have the effect of reducing or nullifying the value of any investment made by the Council at this stage:

- As with all start ups, that the business model cannot be developed as envisaged;

- The Agency is unable to secure the working capital requirement;
- The anticipated demand from local authorities does not materialise;
- The Agency is not able to secure bond placements at the prices (interest rates) anticipated;
- The Government may decide to reduce the margin it levies on PWLB loans so reducing the attractiveness of the Agency as a fund raising vehicle; and;
- The Agency may not attract staff of the required calibre or at a cost higher than anticipated.

It is important to note, however, that participating as a shareholder will not impose a joint and several liability on the Council to guarantee bonds issued. This will only be imposed on Councils participating in an individual bond issuance and it is noted that there are significant protections under English Law for guarantors in these circumstances in any case.

9. Interest Receipts

9.1 Due to counterparty and other financial instruments being increased, as discussed in paragraph 6.1, the Council is on target to achieving its half yearly interest receipts budget of £344k.

10. Interest Rates and Treasury Limits

10.1 Interest Rate Update provided by Capita

Capita Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on treasury management issues for the Council. Capita's opinion on interest rates is presented at Appendix F, and confirms those currently predicted by the Bank of England's Monetary Policy Committee.

10.2 Compliance with Treasury Limits

During this financial year the Council has operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The anticipated prudential & treasury indicators are shown in Appendix G.

11. Implications

(a) Financial Implications

The prudential and treasury indicators have been amended to take account of known financial activities. Higher interest receipts have increased due to the revisions to the Council's Counterparty list agreed by Council on 24th July 2014.

(b) **Staffing Implications**
None.

(c) **Equal & Poverty Implications**
No negative impacts identified.

(d) **Environmental Implications**
None.

(e) **Procurement**
None.

(f) **Consultation and communication**
None required.

(g) **Community Safety**
No community safety implications.

12. Background Papers

12.1 None were used in preparing this report.

13. Appendices

13.1 Appendix A – The Council's Debt information represented graphically
Appendix B – The Council's current Counterparty list
Appendix C – The Council's cash balances represented graphically
Appendix D – Sources of the Council's Deposits
Appendix E – Municipal Bonds Agency Q & A
Appendix F – Capita's opinion on UK Forecast Interest Rates
Appendix G – Prudential and Treasury Management Indicators
Appendix H – Glossary of Terms and Abbreviations

14. Inspection of Papers

14.1 If you have any queries about this report please contact:

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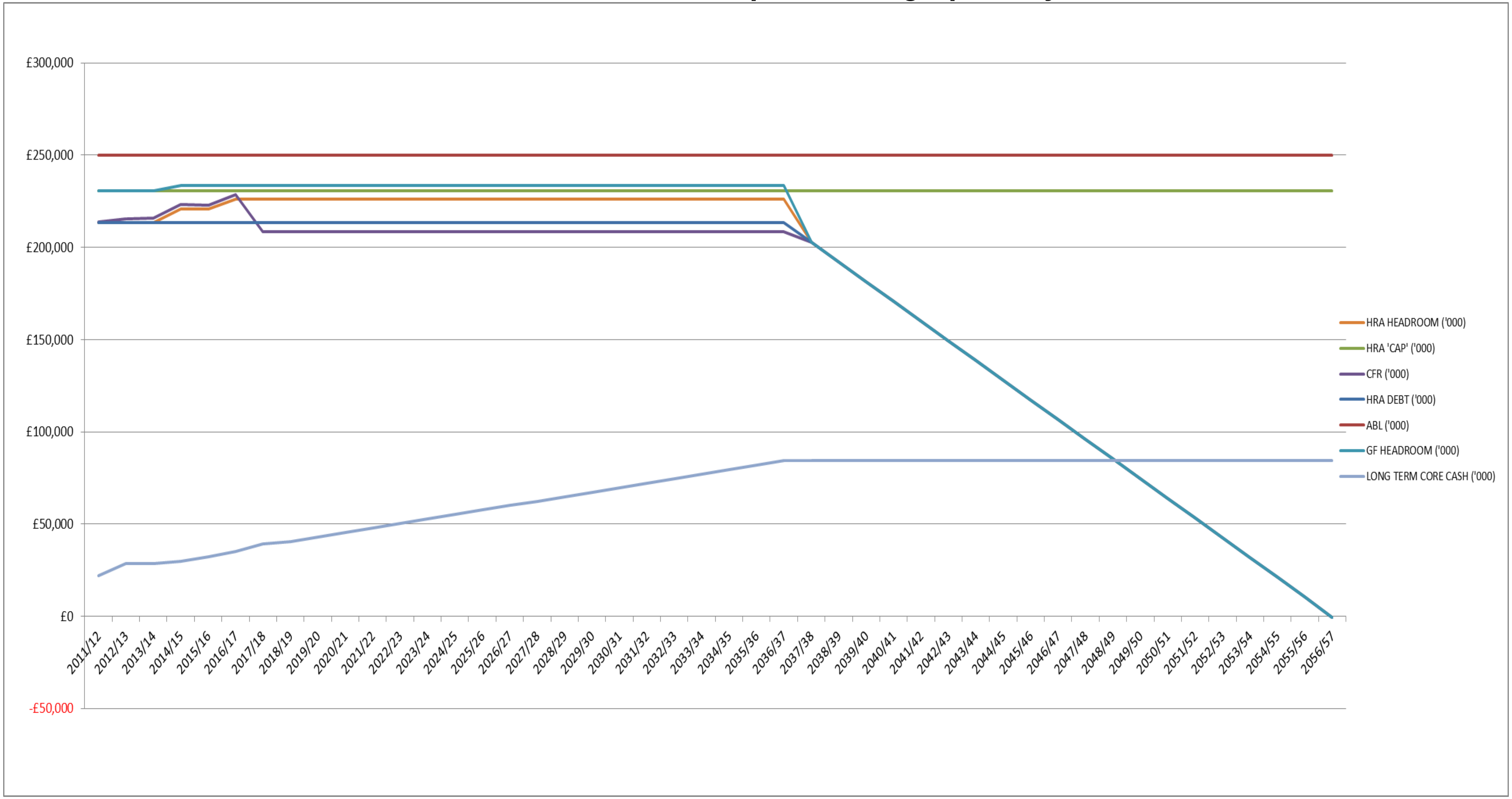
Appendix A

The Council's Debt represented graphically



Appendix B

Treasury Management Annual Investment Strategy

Current Counterparty List

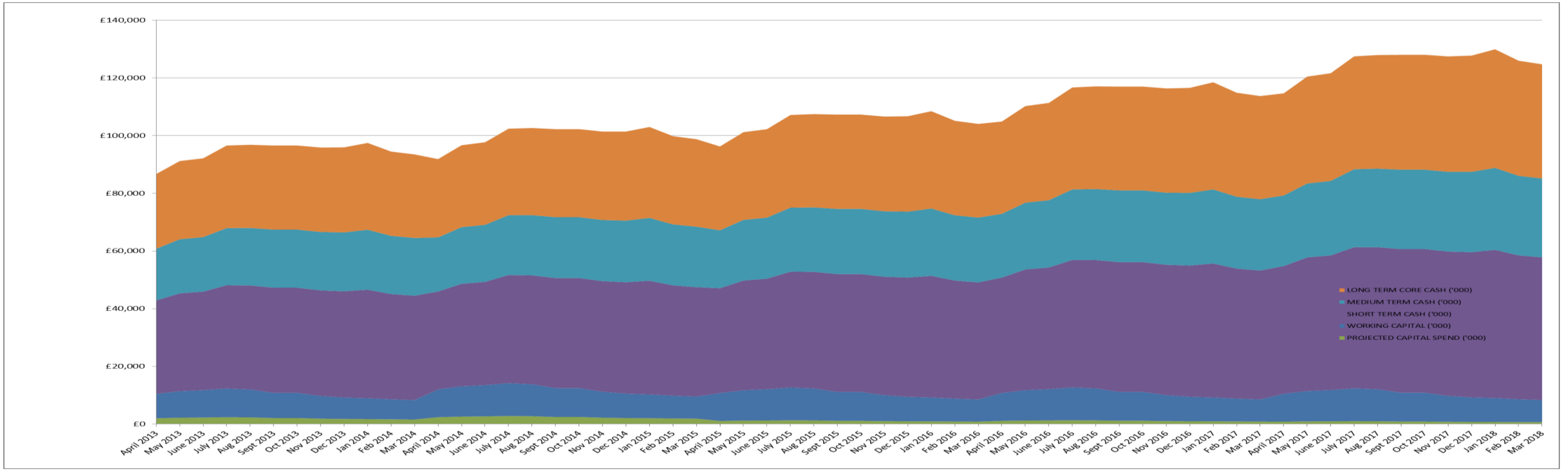
The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. Amendments shown in bold:-

Name	Council's Current Deposit Period	Category	Limit (£)
All UK Local Authorities	N/A	Local Authority	20m
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 30m
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
All UK Nationalised Industries	N/A	Nationalised Industry	20m
Debt Management Account Deposit Facility	N/A	DMADF	None
Barclays Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
HSBC Bank Plc	Using Capita's Credit Criteria	UK Bank	25m
Standard Chartered Bank	Using Capita's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Lloyds TSB Bank Plc	Using Capita's Credit Criteria	UK Nationalised Bank	20m
National Westminster Bank Plc (NWB)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
The Royal Bank of Scotland Plc (RBS)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Members of a Banking Group (BoS Group includes Lloyds, RBS Group includes NWB)	Using Capita's Credit Criteria	UK Nationalised Bank	30m
Deutsche Bank	Using Capita's Credit Criteria	Non-UK Bank	5m

Name	Council's Current Deposit Period	Category	Limit (£)
Santander Bank UK Plc	Using Capita's Credit Criteria	Non-UK Bank	5m
Svenska Handelsbanken	Using Capita's Credit Criteria	Non-UK Bank	5m
Money Market Funds	Liquid Rolling Balance	Financial Instrument	15m (in total, per fund)
Certificate of Deposits (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificate of Deposits (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificate of Deposits (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	None
UK Government Treasury Bills	Up to 6 months	Financial Instrument	None
Supranational Bonds - AAA	Over 1 year & up to 50 Years	Multi-lateral Development Bank Bond	Using Capita's Lending Criteria
UK Building Societies:-			
Name	**Council's Current Deposit Period**	**Asset Value (£'m)**	**Limit (£)**
Nationwide Building Society	1 month or in line with Capita's Credit Criteria, if longer	188,889	Assets greater than £100,000m - £20m Assets between £50,000m and £99,999m - £5m Assets between £5,000m and £49,999m - £2m
Yorkshire Building Society		34,853	
Coventry Building Society		37,843	
Skipton Building Society		14,054	
Leeds Building Society		11,231	
Principality Building Society		6,933	
West Bromwich Building Society		5,630	

Appendix C

Cash Balances represented graphically



SUMMARY DEPOSIT ANALYSIS:-

DESCRIPTION	**2013/14 '000**	**2014/15 '000**	**2015/16 '000**	**2016/17 '000**	**2017/18 '000**
ST CASH	£35,700	£37,400	£40,100	£44,100	£48,800
MT CASH	£19,800	£20,700	£22,200	£24,400	£27,000
CORE CASH	£28,600	£29,900	£32,100	£35,300	£39,100
TOTAL DEPOSITS:-	**£84,100**	**£88,000**	**£94,400**	**£103,800**	**£114,900**
TOTAL INCL. WORKING CAPITAL	**£92,500**	**£97,600**	**£104,000**	**£113,400**	**£124,500**
PROJECTED CAPITAL (ANNUALISED)	£24,100	£28,400	£13,200	£13,400	£10,200
WORKING CAPITAL	£8,400	£9,600	£9,600	£9,600	£9,600

Sources of the Council's Deposits.

Local authorities are free to deposit surplus funds not immediately required in order to meet the costs of providing its services. The Council deposits amounts set aside in its general reserves and earmarked reserves, for example the funds set aside for major repairs to, and the replacement of its property, vehicles and equipment.

The interest earned on these deposits is credited to the General Fund and Housing Revenue Account respectively and helps to fund the cost of providing services. This currently amounts to around £0.7m each year based on current deposit and interest rate levels.

At 1st April 2014, the Council had deposits of £82.957m. The table below provides a sources breakdown of the funds deposited at that date:-

Funds Deposited as at 1 April 2014	**£'000**	**£'000**
Working capital		5,405
General Fund:		
General Reserve	9,176	
Asset Renewal Reserves	14,083	
Other Earmarked Reserves	9,860	33,119
Housing Revenue Account (HRA):		
General Reserve	8,881	
Asset Renewal Reserves	2,392	
Major Repairs Reserve	4,920	
Other Earmarked Reserves	1,929	
Capital Financing Requirement (Including HRA Reform)	(215,909)	
PWLB Borrowing for HRA Reform	213,572	15,785
Capital:		
Capital Contributions Unapplied	11,056	
Usable Capital Receipts	17,592	28,648
Total Deposited		**82,957**

The HRA accounts for around 50% of reserves deposited.

Appendix E

Municipal Bonds Agency Q & A

What will the Agency be?

It will be an independent company owned by local government with the sole aim of reducing financing costs for councils through arranging lending at competitive interest rates. It is envisaged that the company will fund lending through any or all of the following:

- Raising money on the capital markets through issuing bonds;
- Arranging lending or borrowing directly from local authorities;
- Sourcing funding from other third party sources, such as banks, pension funds or insurance companies.

What is the purpose of the Agency?

It will offer councils a viable alternative source of capital funding at a lower cost than existing sources and introduce sector owned diversity into the local government lending market. It will allow local authorities greater control over their funding costs in the future, by being able to demonstrate the value of peer pressure and capital market disciplines

Who would own it?

It will be owned solely by the local authorities or their pension funds that invest in its establishment. They will become shareholders in the Agency and therefore have a say in the way it is run. In due course, we would expect to be able to accommodate all local authorities, who wish to become shareholders.

Who would run it?

The Agency expects to have a wide local authority shareholder base. It will be a limited company, with its own Board of Directors comprising local authority finance experts, financial services experts from risk management and debt capital markets backgrounds and representatives elected by shareholders, all of who will go through a rigorous selection process.

How will councils recoup their investments?

It is envisaged that once the Agency is generating sufficient profit, it would be able to start paying a dividend to investors, while delivering economic benefits to borrowers. Its aim, as reflected in its incorporation documents, will be to deliver an overall benefit to the local government sector as a whole, and any future dividend policy set by its board would be subject to that. Its shares will be transferrable and therefore a council could sell its shares to other local authorities or eligible public bodies.

Does it have Ministerial support?
The Government's view is that it is within the powers of local authorities to establish a municipal bond agency. Ministers have said, "It remains for the local authority sector to determine collectively whether a local authority bond agency could be delivered on a sustainable and affordable footing. It is consistent with the localism agenda that the autonomous local government sector considers whether it is able to deliver and sustain alternative financing models."

What happens if the Public Works Loans Board changes its interest rates?
The effect of PWLB rate change on the Bonds Agency's business would depend on its amount and how permanent the change was. The business case assesses the risk from future PWLB competition. Nevertheless the Treasury has said publicly that reducing PWLB margins is not being considered.

How long will it take to establish the Agency?
The business case assumes that the Agency would be ready to issue its first bonds in March/April 2015 to meet the normal peaks in council demand for borrowing.

Is additional legislation required to enable the Agency to be established?
No. Councils have the necessary powers.

What impact will this proposal have on the Government's control of overall government borrowing?
Nothing in this proposal seeks to change existing arrangements. The proposals do not facilitate additional borrowing over what is already permitted within the capital regulatory system. The existing arrangements with the Government retaining ultimate regulatory control are to be maintained and borrowing authorities will be required to operate within the current prudential code. What it will do is, for any given level of borrowing, reduce the interest bill local taxpayers have to fund.

Is it legal for councils to guarantee each other's debts?
Our very clear legal advice is that the General Power of Competence (GPC) introduced in the Localism Act 2011 gives English councils the power to do this. Because the GPC does not cover other public bodies such as Police, Fire and National Park Authorities, it is less clear whether they could do the same without a change in the legislation, which applies to them.

Should councils be concerned about providing a joint and several guarantee?

The Agency will have in place a credit process, underpinned by ongoing monitoring; risk and liquidity capital; and a right of recourse, which will ensure, in the event of the guarantee being called, that it will be applied proportionally. Even were the guarantee to be called, creditors would be confident of receiving their money back in time. The protections available would be stronger than currently apply in the case of inter-council lending. Nevertheless, no local authority has ever defaulted and for the joint and several guarantee to be called an unprecedented situation would have arisen.

What controls are in place to prevent a default and what measures are available to a council to recover sums owing to it?

There are a range of controls designed to prevent a Local Authority from defaulting on its obligations. In addition, there are legislative measures that are likely to ensure that even if a Local Authority does default, its creditors are able to recover sums owing to them. These controls and measures include:

- Councils are statutorily prevented from borrowing to avoid raising taxes and cutting spending, thereby reducing the risk of a council entering financial distress;
- The prudential code forces councils to consider whether borrowing is affordable and financially sustainable;
- The responsibility of Section 151 officers under Section 114 of the Local Government Finance Act 1988 to ensure that councils can meet their obligations as they fall due, and to formally report if the council’s expenditure will exceed its resources;
- Continuing access to the PWLB for liquidity support;
- Government reserve powers to intervene. To date, the Government has not allowed any Local Authority to default on its obligations;
- If a Local Authority defaults on a debt greater than £10,000 for a period of two months, under Section 13(5) of the Local Government Act 2003 a creditor may apply to the High Court for an administrator to be appointed. This process should ensure that any Local Authority that is called upon under the guarantee can recover the debt via the courts if need be. The powers of the administrator will be determined by the High Court, but can include:
    - Collecting, receiving or recovering the revenues of the local authority;
    - Issuing levies or precepts; or
    - Setting, collecting or recovering Council Tax.

What is the reaction of local authorities to the establishment of an agency?

A significant number of local authorities have been very supportive of the initiative to date, devoting time and resources to help ensure that the business case is fully robust. As part of the business case review, we carried out a survey of English councils and, in addition, presented at a number of local authority conferences. Since publishing the revised business case we have spoken directly to over 90 councils. These recent conversations, the survey, and conference feedback, have confirmed to us that there is significant demand for an alternative, local authority controlled, source of capital finance

How much will it cost?

We are looking to raise £8 to £10 million capital, which includes a buffer to ensure that the agency is well capitalised. Our project plans envisage that this will be used within a staged process, with a number of checkpoints overseen by a rigorous governance process. We have established the Local Capital Finance Company Ltd and have now presented a firm investment proposition to all councils and related bodies, such as local authority pension funds, in an Information Memorandum.

Appendix F

Capita's Opinion on Forecast UK Interest Rates – As Currently Predicted

Introduction

The paragraphs that follow reflect the views of the Council's Treasury Management advisors (Capita) on UK Interest Rates as currently predicted.

Interest rates

Members of the Bank of England Monetary Policy Committee (MPC) kept the bank rate at 0.5% and Quantitative Easing (QE) at £375bn during 2014/15. Going-forward, the Council's treasury advisor, Capita, has provided the following interest rate forecasts issued on 1st July 2014:-

	Now	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
3 month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	1.10%	1.10%	1.40%	1.40%	1.60%	1.90%	2.10%	2.25%
6 month LIBID	0.58%	0.60%	0.80%	0.90%	1.00%	1.15%	1.20%	1.50%	1.50%	1.80%	2.00%	2.20%	2.30%
12 month LIBID	0.80%	0.80%	1.00%	1.00%	1.20%	1.30%	1.40%	1.80%	1.80%	2.10%	2.20%	2.30%	2.40%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.30%	3.30%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	3.50%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.20%	4.20%	4.20%	4.30%	4.40%	4.40%
25yr PWLB rate	4.10%	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%
50yr PWLB rate	4.10%	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%

Capita's interest rate forecast is for the first increase in the bank rate to be in January 2015. With higher growth predictions and lower un-employment forecasts for the U.K, are the main reasons for this change in interest rates overall.

Appendix G

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
PRUDENTIAL INDICATORS				
Capital expenditure				
- General Fund	29,385	8,571	2,516	1,185
- HRA	31,675	19,811	26,394	20,830
Total	**61,060**	**28,382**	**28,910**	**22,015**
Incremental impact of capital deposit decisions on:				
Band D Council Tax (City element)	0.00	0.00	0.00	0.00
Average weekly housing rent	0.00	0.00	0.00	0.00
Capital Financing Requirement (CFR) as at 31 March				
- General Fund	3,965	3,853	3,741	3,629
- HRA	219,217	219,217	224,678	224,678
Total	**223,182**	**223,070**	**228,419**	**228,307**
Change in the CFR	7,273	(112)	5,349	(112)
Deposits at 31 March	97,600	104,000	113,400	124,500
External Gross Debt	220,845	220,845	226,306	226,306
Ratio of financing costs to net revenue stream				
-General Fund	(3.17%)	(3.83%)	(5.48%)	(6.61%)
-HRA	18.50%	18.05%	18.32%	15.44%
Total	**15.34%**	**14.21%**	**12.84%**	**8.83%**

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
TREASURY INDICATORS				
Authorised limit				
for borrowing	250,000	250,000	250,000	250,000
for other long term liabilities	0	0	0	0
Total	**250,000**	**250,000**	**250,000**	**250,000**
HRA Debt Limit	230,839	230,839	230,839	230,839
Operational boundary				
for borrowing	223,182	223,070	228,419	228,307
for other long term liabilities	0	0	0	0
Total	**223,182**	**223,070**	**228,419**	**228,307**
Upper limit for total principal sums deposited for over 364 days	10,000	10,000	10,000	10,000
Upper limit for fixed & variable interest rate exposure				
Net interest on fixed rate borrowing/deposits	7,003	6,828	7,383	7,500
Net interest on variable rate borrowing/deposits	(23)	(23)	(23)	(23)
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit	
10 years and above (PWLB borrowing for HRA Reform)		100%	100%	

Appendix H

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
CIPFA	Chartered Institute of Public Finance and Accountancy
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Eurocurrency	Any deposits residing in banks located outside borders of the country that issues the deposit that it is denominated in
Gross Domestic Product (GDP)	GDP per capita is considered an indicator of a country's 'standard of living'
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate

Term	Definition
Net Borrowing Requirement	External borrowing less deposits
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Yield	Interest, or rate of return, on an investment