Leeds
CITY COUNCIL

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Report of Director of Resources

Report to Executive Board

Date: 15th February 2013

Subject: TREASURY MANAGEMENT STRATEGY 2013/14

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☑ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☑ No
Is the decision eligible for Call-In? Except recommendation 6.2 to 6.4	☑ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☑ No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Strategy for 2013/14, and also provides an update on the implementation of the 2012/13 strategy.
2. The Council's level of net external debt is anticipated to be £1,474m by 31/03/13, £41m below expectations in November 2012. A treasury savings target is assumed for 2013/14 and it is anticipated this will be achievable during the year through funding the Council's borrowing requirement at the most advantageous rates and using internal cash balances, in lieu of more expensive longer term funding at much higher rates.
3. The debt budget is forecast to rise by £650k in 2013/14 when compared to 2012/13. This includes a savings target of £411k.
4. The Authorised limit of £2.6bn has been rolled forward in 2015/16. The operational boundary of £2,425bn has also been rolled forward in 2015/16.

Recommendations

That the Executive Board:

5. Approve the initial treasury strategy for 2013/14 as set out in Section 3.3 and note the review of the 2012/13 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6. The borrowing limits for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.4.
7. The treasury management indicators for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.5.
8. The investment limits for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.6.

1 Purpose of this report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2013/14 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2012/13.

2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

3 Main Issues

3.1 Review of Strategy and Borrowing Limits 2012/13

3.1.1 The current debt forecasts are given in Table 1 below, which shows that net external borrowing is now expected to be £1,474m by the end of 2012/13. This is £41m less than expected in November. A capital programme update is included as a separate agenda item.

Table 1

ANALYSIS OF BORROWING 2012/13		2012/13 Feb 12 Report £m	2012/13 Nov 12 Report £m	2012/13 This Report £m
Net Borrowing at 1 April		1,481	1,385	**1,385**
New Borrowing for the Capital Programme – Non HRA		106	120	**132**
New Borrowing for the Capital Programme – HRA		0	0	**0**
Debt redemption costs charged to Revenue (Incl HRA)		(37)	(39)	**(40)**
Reduced/(Increased) level of Revenue Balances		(10)	49	**(3)**
Net Borrowing at 31 March*		1,540	1,515	1,474
Capital Financing Requirement				**1,752**
* Comprised as follows				
Long term borrowing	Fixed	1,423	1,260	1,266
	Variable (less than 1 Year)	50	25	20
	New Borrowing	60	129	89
Short term Borrowing		19	112	111
Total External Borrowing		1,552	1,526	1,486
Less Investments		12	11	12
Net External Borrowing		**1,540**	**1,515**	**1,474**
% borrowing funded by short term and variable rate loans		8%	17%	15%

3.1.2 The Eurozone debt crisis has continued to impact on the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Sentiment in financial markets has improved considerably since the ECB pledged to buy unlimited amounts of bonds of countries which ask for a bail-out , a commitment to support Greece and to keep the Eurozone intact. However, the foundations to this “solution” to the Eurozone debt crisis are still weak.

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

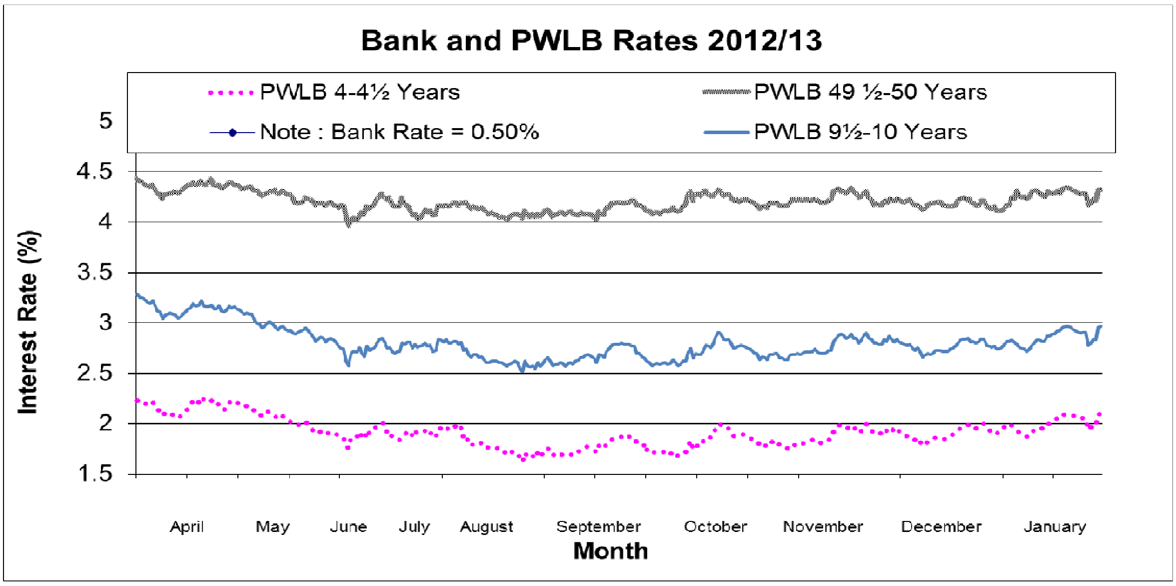
3.1.4 Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

3.1.5 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 has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. The outlook for the housing market remains challenging for a prolonged period. The drive to reduce the public sector deficit is dependent on the UK economy growing at a reasonable pace but the lack of Eurozone growth combined with tax receipts not keeping pace with additional welfare benefit payments, will provide a barrier to UK growth.

3.1.6 The Government’s austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years. However youth unemployment still remains a cause for considerable concern.

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

Chart 1



3.1.8 Since the November half year report short term rates have remained at low levels, as shown in Chart 1. The Council's treasury advisors' latest forecast for Quarter 1 2013 are that PWLB rates for 50 year borrowing will be around 4.0%, 25 year borrowing around 3.8% and 10 year borrowing around 2.50%. These rates are predicted to remain volatile as the economy starts its recovery process, but are generally anticipated to rise.

3.1.9 The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years. Moody's has stated that it will review the UK's AAA rating at the start of 2013.

3.1.10 The current borrowing strategy continues to fund capital programme borrowing requirement from short dated loans and internal cash balances, whilst allowing longer term funding opportunities to be taken when market conditions are favourable. Table 2 shows £25m of new loans were acquired and also highlights that no rescheduling of long term debt has taken place in 2012/13. The strategy is projected to generate savings of £3.442m.

Table 2

Rescheduling and Funding 2012/13							
Premature Repayments				**New Replacement Borrowing**			
Date	**Amount (£m)**	**Original Rate (%)**	**Discount Rate**	**Date**	**Amount (£m)**	**Term (Years)**	**Interest Rate (%)**
PWLB				PWLB			
				11/05/2012	10	10	2.95
				21/05/2012	10	10	2.90
Sub Total	**0**				**20**		
LOBOs (Call date)				Market Loans			
				20/04/2012	5	22.5	3.95
Sub Total	**0**				**5**		
Total	**0**			**Total**	**25**		

3.1.11 Members will recall from the strategy set for 2012/13 and the update on treasury strategy in November that the changes to the Housing Subsidy system resulted in the reduction of £112m of HRA debt and associated premiums. Finalisation of the 2011/12 accounts has enabled the implementation of a new system to allocate loans and interest costs between the general fund and HRA. The overriding principles of the new system ensure that:

- Any apportionment of debt will not be to the detriment of the General Fund.
- The split of loans is broadly equitable between the Housing Revenue Account (HRA) and General Fund.
- Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control.
- Un-invested balance sheet resources which allow borrowing to be below the CFR are apportioned between General Fund and HRA.

3.1.12 The HRA self-financing scheme has provided the opportunity to fully fund the HRA financing requirement from current long term loans held by the Council. Whilst this has resulted in additional interest costs to the HRA of £742k in 12/13, against the original estimate, it provides the HRA with a greater level of stable funding over the life of the Housing business plan. The net impact on the General Fund has resulted in savings of £5.17m against the original estimate. However General Fund now bears more of the risk associated with rising interest costs in the future.

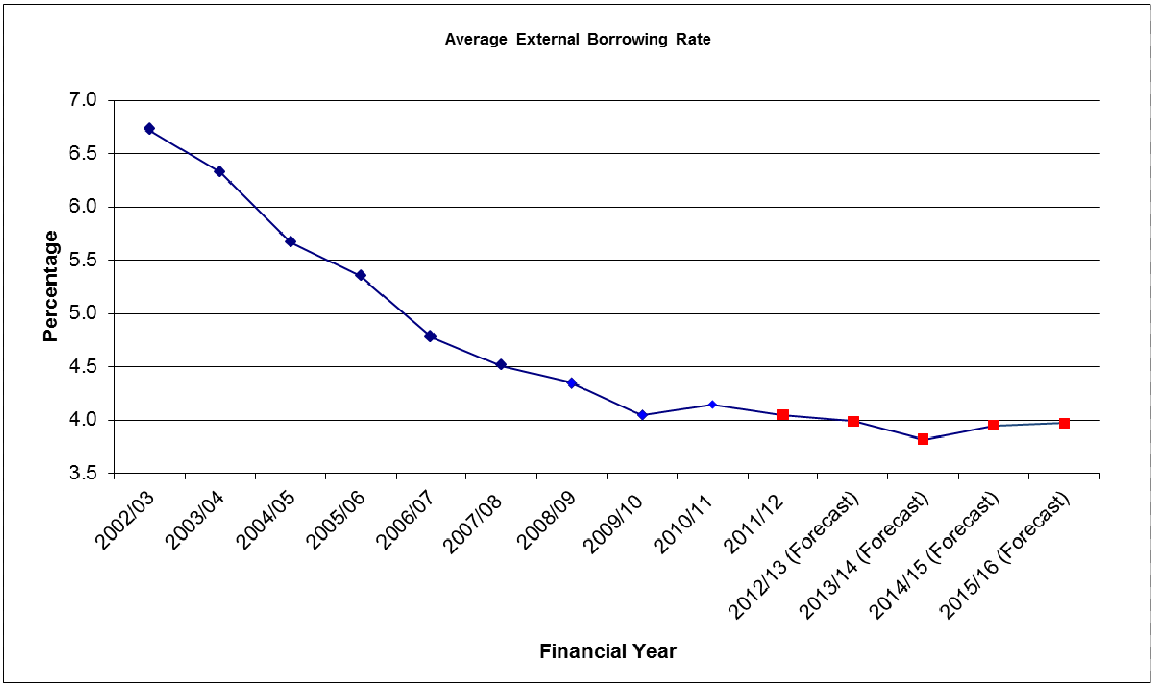
3.1.13 The Item 8 regulations for 2012/13 onwards include a change in the requirements for amortisation of premiums and discounts to the HRA, which has the effect of normalising accounting treatment of the write off of premiums and discounts between the HRA and GF. Discussions are still taking place with External Auditors as to the correct accounting treatment of these adjustments.

3.1.14 The remaining forecast long term borrowing requirement for 2012/13 is now £220m. This includes £112m of short dated loans. The levels of capital programme slippage, cash reserves, economic conditions and short term interest rates will continue to be monitored before additional monies are borrowed. Given that short term rates continue at historical lows the Council will continue to fund the remaining borrowing requirement, if required at short term rates, whilst taking advantage of long term funding opportunities as they arise.

3.2 Interest Rate Performance

3.2.1 The average rate of interest paid on the Council's external debt for 2011/12 was 4.05% as reported in the Annual Treasury Management Report 2011/12 to Executive Board on 18th July 2012. This rate is forecast to fall below 4% for 2012/13. Chart 2 shows how the average, external borrowing rate has fallen from 6.72% in 2002/03. The expectation is that the Councils average cost of borrowing will begin to rise as the cost of borrowing increases and short term funding is switched to more expensive longer term funding rates.

Chart 2



3.3 Strategy for 2013/14

3.3.1 Table 3 shows that net borrowing is expected to rise by £66m to £1,540m during the course of 2013/14. The Capital Programme report is presented elsewhere on this agenda.

Table 3

ANALYSIS OF BORROWING 2012/13 – 2015/16		2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Net Borrowing at 1 April		1,385	1,474	1,540	1,563
New Borrowing for the Capital Programme – Non HRA		132	109	80	74
New Borrowing for the Capital Programme - HRA		0	0	0	0
Debt redemption costs charged to Revenue(Non HRA)		(40)	(45)	(45)	(45)
Reduced/(Increased) level of Revenue Balances		(3)	2	(12)	(12)
Net Borrowing at 31 March		1,474	1,540	1,563	1,580
* Comprised as follows					
Long term borrowing	Existing Fixed	1,266	1,323	1,437	1,460
	Existing Variable (Less than 1yr)	20	130	110	110
	New Borrowing	89	66	23	17
Short term Borrowing		111	28	0	0
Total External Borrowing		1,486	1,547	1,570	1,587
Less Investments		12	7	7	7
Net External Borrowing		1,474	1,540	1,563	1,580
% gross borrowing exposed to interest rate risk		15%	14%	8%	8%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

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

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip. This challenging and uncertain economic outlook has several key treasury management implications:

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

3.3.3 The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

3.3.4 The longer term trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Given the weak outlook for economic growth, the prospects for any interest rate changes before March 2015 are limited. There is potential for the start of Bank Rate increases to be delayed even further if growth disappoints.

3.3.5 Low short term interest rates will continue to focus any new borrowing in the very short periods. This strategy will generate lower borrowing costs but it is set against the need to lock in low longer term rates. PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing which will spread debt maturities away from a concentration in long dated debt. Table 4 shows the forecast of rates by the Council's treasury advisors.

Table 4

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

3.3.6 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk remains high.

3.3.7 Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Director of Resources will continue to monitor market dynamics with a view to securing longer term debt at the appropriate time and as such the strategy will adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

3.3.8 The requirement to borrow new money is determined by the size of the Council's capital programme. The debt cost of servicing this requirement is shown in the following table.

Table 5

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
GF DEBT COSTS (after timing of spend and use of reserves/balances)	70,087.0	69,682.0	69,682.0	69,682.0
Less budgeted savings target	(1,104.0)	(699.0)	(699.0)	(699.0)
BASE DEBT BUDGET	68,983.0	68,983.0	68,983.0	68,983.0
Adjustment to reflect HRA changes	(5,170.0)	(1,883.0)	405.0	1,154.0
Increase to Base to reflect capital programme		2,533.0	2,533.0	2,533.0
REVISED BASE DEBT BUDGET	**63,813.0**	**69,633.0**	**71,921.0**	**72,670.0**
REVENUE COST OF BORROWING (after spend timing/reserves/balances)	60,372.0	70,044.0	74,925.0	77,188.0
Treasury Savings Target		(411.0)		
REVISED COST OF BORROWING	**60,372.0**	**69,633.0**	**74,925.0**	**77,188.0**
VARIANCE	**(3,441.0)**	**0.0**	**3,004.0**	**4,518.0**

Note: the adjustment to reflect HRA changes in 2012/13 is provisional awaiting confirmation of the correct accounting treatment from External Auditors.

3.3.9 The revised debt budget of £69,633k for 2013/14 is an increase of £650k over the 2012/13 base budget of £68,983k. The revised 2013/14 debt budget includes a savings target of £411k.

3.3.10 The debt budget is based upon borrowing at the following average interest rate detailed below in Table 6.

Table 6

	Average Interest Rate
2012/13	0.5%
2013/14	1.6%
2014/15	2.4%
2015/16	2.5%

3.3.11 These assumptions on borrowing rates have associated risks. For example in 2013/14 if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by £663k.

3.4 Borrowing Limits for 2012/13, 2013/14, 2014/15 and 2015/16

3.4.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for ongoing monitoring of external debt, and may be breached temporarily due to unusual cash flow movements

3.4.2 The Director of Resources has delegated responsibility to make adjustments between the two separate limits for borrowing and other long term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt for the next three years.

3.4.3 It is proposed to maintain the authorised limit for 2015/16 at the 2014/15 level.

Recommended: Authorised Limits as follows:

Authorised Limit	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**
Borrowing	1,900	1900	1,900	1,900
Other Long Term Liabilities	600	650	700	700
Total	**2,500**	**2,550**	**2,600**	**2,600**

3.4.4 It is proposed to maintain the Operational boundary for borrowing in 2015/16 at the 2014/15 level.

Recommended: Operational Boundaries as follows:

Operational Boundary	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**
Borrowing	1,760	1,760	1,760	1,760
Other Long Term Liabilities	565	610	665	665
Total	**2,325**	**2,370**	**2,425**	**2,425**

3.5 Treasury Management Indicators

3.5.1 Appendix A highlights the borrowing limits and other prudential indicators

3.5.2 The first prudential indicator in respect of treasury management is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This was adopted by the Council at the Executive Board meeting on the 13th March 2003.

3.5.3 The Council is required to set an upper limit on its fixed interest rate exposures that represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that the limit of 115% remains unchanged and is rolled forward into 2015/16.

Recommended: Upper limit on fixed interest rate exposures for 2013/14, 2014/15 and 2015/16 of 115% (no change)

3.5.4 The Council is required to set an upper limit on its variable interest rate exposures that represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that the limit of 40% of debt remains unchanged and is rolled forward into 2014/15.

Recommended: Upper limit on variable interest rate exposures for 2013/14, 2014/15 and 2015/16 of 40% (no change)

3.5.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit
under 12 months	0%	15%
12 months and within 24 months	0%	20%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	40%
10 years and above	25%	90%

Recommended: Upper and Lower limits on fixed rate maturity structure remains unchanged as above.

3.6 Investment Strategy and Limits

3.6.1 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

3.6.2 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counter-parties.

3.6.3 The investment strategy allows for the Council to invest in only the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

3.6.4 The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below and roll the limit forward into 2015/16.

Recommended: Upper limit on sums invested for periods longer than 364 days (no change):

Total principal sum invested for a period longer than 364 days	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**
Upper limit	150	150	150	150

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme update report elsewhere on this agenda.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality diversity cohesion and integration issues. An equality screening document is attached at Appendix C.

4.3 Council Policies and City Priorities

4.3.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Council's business plan.

4.4 Resources and Value for Money

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.4.2 The updated strategy 2012/13 is forecast to deliver savings of £8.612m against the budgeted position.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. As such, recommendations 6.2 to 6.4 are not subject to call in.

4.6 Risk Management

4.6.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group
- Quarterly strategy meeting with the Director of Resources and the Council's treasury advisors
- Regular market, economic and financial instrument updates and access to real time market information

5 Conclusions

5.1 The Council's level of external debt at 31st March 2013 is anticipated to be £1,474m, £41m lower than expected in November 2012, rising to £1,540m in 2013/14 and to £1,580m by 2015/16.

5.2 A treasury savings target is assumed for 2013/14 and it is anticipated this will be achievable during the year through funding the Council's borrowing requirement at the most advantageous rates and using internal cash balances, in lieu of more expensive longer term funding at much higher rates.

5.3 The uncertainty and risks around economic forecasts will result in further caution being adopted in the management of debt and investments. The Director of Resources will continue to monitor market dynamics with a view to securing longer term debt at the appropriate time.

6 Recommendations

That the Executive Board:

6.1 Approve the initial treasury strategy for 2013/14 as set out in Section 3.3 and note the review of the 2012/13 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6.2 The borrowing limits for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.4.

6.3 The treasury management indicators for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.5.

6.4 The investment limits for 2012/13, 2013/14, 2014/15 and 2015/16 be set as detailed in Section 3.6.

7 Background documents [1]

None

[1] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix A

Leeds City Council - Prudential Indicators 2012/13- 2015/16

No.	PRUDENTIAL INDICATOR	2012/13	2013/14	2014/15	2015/16
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1	General Fund - Excluding DSG (Note1)	11.02%	12.57%	13.37%	13.76%
2	HRA	15.20%	13.34%	11.84%	11.11%
	Estimates of the Incremental Impact of new capital investment decisions	£ . P	£ . P	£ . P	£ . P
3	increase in council tax B7(band D, per annum) (Note 2)	13.49	62.64	98.32	116.58
4	increase in housing rent per week	0.00	0.00	0.00	0.00
		£'000	**£'000**	**£'000**	**£'000**
5	**Net external borrowing requirement (Net Debt and CFR)**	1,474,000	1,540,000	1,563,000	1,580,000
	The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	OK	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**	**£'000**
6	Non HRA	195,849	206,779	166,291	121,255
7	HRA	60,984	65,516	55,508	62,273
	TOTAL	256,833	272,295	221,799	183,528
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	Non HRA	1,550,349	1,626,103	1,689,437	1,765,624
9	HRA	691,364	726,232	743,479	730,855
	TOTAL	2,241,713	2,352,335	2,432,916	2,496,479
9a	**Limit of HRA Indebtedness as implemented under self financing**	726,155	726,155	726,155	726,155

No.	PRUDENTIAL INDICATOR	2012/13	2013/14	2014/15	2015/16
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 5)**				
	borrowing	1,900,000	1,900,000	1,900,000	1,900,000
	other long term liabilities	600,000	650,000	700,000	700,000
	TOTAL	2,500,000	2,550,000	2,600,000	2,600,000
11	**Operational boundary - (Note 5)**				
	borrowing	1,760,000	1,760,000	1,760,000	1,760,000
	other long term liabilities	565,000	610,000	665,000	665,000
	TOTAL	2,325,000	2,370,000	2,425,000	2,425,000
14	**Upper limit for fixed interest rate exposure**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 5)** (per maturity date)	150,000	150,000	150,000	150,000
18	**Net Debt as a percentage of Gross debt**	99.71%	99.54%	99.54%	99.55%

16	Maturity structure of fixed rate borrowing 2012/13	Lower Limit	Upper Limit	Projected 31/03/2013
	under 12 months	0%	15%	2%
	12 months and within 24 months	0%	20%	10%
	24 months and within 5 years	0%	35%	17%
	5 years and within 10 years	0%	40%	14%
	10 years and above	25%	90%	58%
				100%

otes.

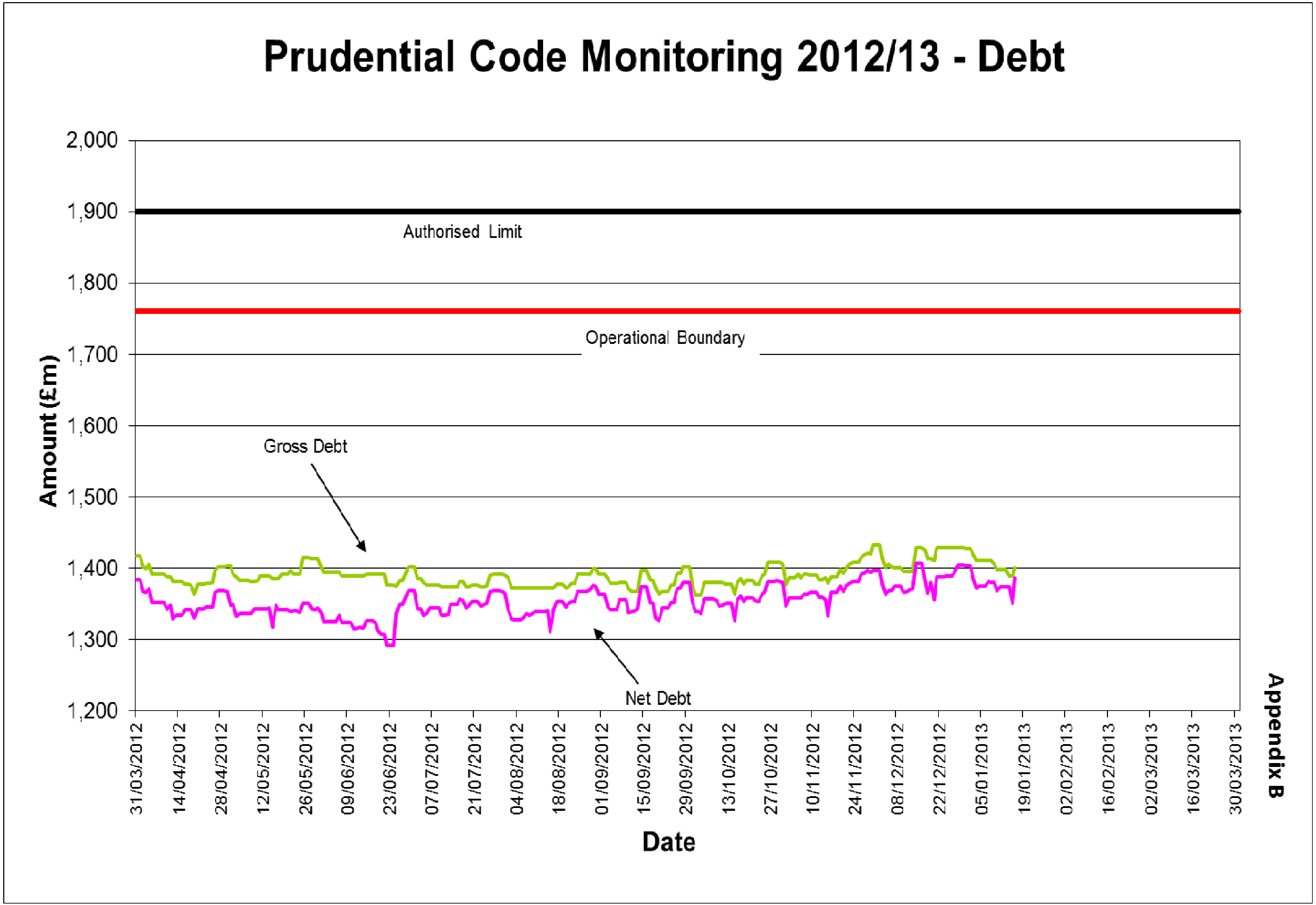
1 **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.**

2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

3 **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**

5 **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, and the revised code in Frebruary 2010 and 2012**



Prudential Code Monitoring 2012/13 - Debt
Amount (£m)
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
31/03/2012
14/04/2012
28/04/2012
12/05/2012
26/05/2012
09/06/2012
23/06/2012
07/07/2012
21/07/2012
04/08/2012
18/08/2012
01/09/2012
15/09/2012
29/09/2012
13/10/2012
27/10/2012
10/11/2012
24/11/2012
08/12/2012
22/12/2012
05/01/2013
19/01/2013
02/02/2013
16/02/2013
02/03/2013
16/03/2013
30/03/2013
Date

Appendix B

Appendix C
Equality, Diversity, Cohesion and Integration Screening

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision.** Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

Directorate: Resources	**Service area: Financial Development**
Lead person: Maureen Taylor	**Contact number: 74234**

1. Title: Treasury Management Strategy 2013-2014
Is this a: [X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other** **If other, please specify**

2. Please provide a brief description of what you are screening
The report gives sets the treasury management strategy for 2013/14 with an update on strategy in 2012/13.

3. Relevance to equality, diversity, cohesion and integration

All the council's strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.

The following questions will help you to identify how relevant your proposals are.

When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation and any other relevant characteristics (for example socio-economic status, social class, income, unemployment, residential location or family background and education or skills levels).

Questions	Yes	No
Is there an existing or likely differential impact for the different equality characteristics?		X
Have there been or likely to be any public concerns about the policy or proposal?		X
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?		X
Could the proposal affect our workforce or employment practices?		X
Does the proposal involve or will it have an impact on		
• Eliminating unlawful discrimination, victimisation and harassment		X
• Advancing equality of opportunity		X
• Fostering good relations		X

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4.**
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5.**

4. Considering the impact on equality, diversity, cohesion and integration
If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment. Please provide specific details for all three areas below (use the prompts for guidance).
• **How have you considered equality, diversity, cohesion and integration?** (**think about** the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)
• **Key findings** **(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)
• **Actions** **(think about** how you will promote positive impact and remove/ reduce negative impact)

5. If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment**.	
Date to scope and plan your impact assessment:	
Date to complete your impact assessment	
Lead person for your impact assessment (Include name and job title)	

6. Governance, ownership and approval Please state here who has approved the actions and outcomes of the screening		
Name	**Job title**	**Date**
Maureen Taylor	Chief Officer Financial Development	17th January 2013

7. Publishing This screening document will act as evidence that due regard to equality and diversity has been given. If you are not carrying out an independent impact assessment the screening document will need to be published.	
Date screening completed	17th January 2013
If relates to a Key Decision send to Corporate Governance	26th January 2013
Any other decision please send to Equality Team (equalityteam@leeds.gov.uk)	