Agenda Item No. 10

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANANGEMENT OVERVIEW AND SCRUTINY COMMITTEE

WEDNESDAY 5 FEBRUARY 2014

CABINET

WEDNESDAY, 12 FEBRUARY 2014

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY

2014/2015 – 2016/2017

REPORT OF THE GO SHARED SERVICE HEAD OF FINANCE

(Contact: Paul Stuart, Tel: (01993) 861171)

(The Treasury Management Strategy Statement will be approved by Council and the Prudential Indicators and Limits will also be approved by Council as part of the formal budget and tax setting process).

1. PURPOSE

To consider the Council's Treasury Management Strategy for 2014/15 and approve; Prudential Indicators; MRP Statement and the Use of Specified and Non Specified Investments.

2. RECOMMENDATIONS

(a) That the Cabinet recommends:

(i) The Treasury Management Strategy 2014/2015 to 2016/2017 at Appendix A.

(ii) The Minimum Revenue Provision (MRP) Statement - there is no requirement to charge MRP in 2014/15 (as defined within Appendix A Paragraph 8).

(b) That the Council be recommended to adopt the Prudential Indicators and Limits for 2014/2015 to 2016/2017 as summarised in Appendix F.

3. BACKGROUND

3.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services 2011 Edition (the "CIPFA TM Code") and the Prudential Code requires local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. This statement also incorporates the Annual Investment Strategy as required by the Department for Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

3.2. The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy 2014/15 (Investments)

- Annual Investment Strategy for 2014/15
- Prudential Indicators for 2014/15, 2015/16 and 2016/17 (the Authorised Limit is a statutory limit)
- MRP Statement

3.3. In accordance with the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at its Cabinet meeting on 17 February 2010. All treasury activity will comply with relevant statute, guidance and accounting standards.

3.4. The authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. ALTERNATIVES/OPTIONS

The Committee may suggest amendments to the proposed Treasury Management Strategy for 2014/2015 to 2016/2017.

5. FINANCIAL IMPLICATIONS

There are no direct financial implications

6. REASONS

To incorporate the requirements of the Local Government Act 2003 and the guidance on Local Government Investments whilst complying with the principles of the CIPFA Code of Practice for Treasury Management.

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GO Shared Services Head of Finance

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Date: 26 January 2014

Background Papers:

ODPM Guidance under Section 15(1) (a) Local Government Act 2003.
CIPFA Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes.
Arlingclose Treasury Management Strategy Report.

Appendix A

Treasury Management Strategy Statement and Investment Strategy 2014/14 to 2015/16

1. Capital Financing Requirement

1.1 The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves are the core drivers of Treasury Management Activity.

1.2.1 The Council's current level of investments is set out below:

EXISTING INVESTMENT PORTFOLIO

Investments	**31/12/2013 Actual Portfolio £m**
Managed in-house	
- Short Term Monies (Deposits)	9.100
- Monies on Call / MMF	4.761
- Corporate Bonds	4.777
- Long Term Investments -RSL	5.000
Managed externally	
- By Fund Managers	13.011
- Liquidity Fund	
- Short Dated Bonds	
- Target Return Fund	
Total Investments*	36.649
Icelandic Investments O/S	2.053

* Please note this total excludes Icelandic Investments. The outstanding balance is shown separately in the line below.

1.3 The controls for borrowing allow an authority to borrow funds in excess of the current level of its CFR up to the three year projected date – 2016/17. The condition of such borrowing is that the Council could only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. However, the Council is currently debt free, funding its capital programme from existing resources such as capital receipts, earmarked reserves and capital contributions. The strategy is to minimise impact on the Council's revenue account. Consequently, at present while capital funding can be contained within existing resources this will be the continuing capital funding strategy.

1.4 The forecasted movement in the CFR in the coming years is one of the Prudential Indicators (PIs). The movement in actual external debt (this Council is debt free) and usable reserves combine to identify the authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2013/14 Estimate £'000	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
General Fund CFR	1,250	910	554	181
Less: Borrowing and Other Long Term Liabilities	(1,297)	(957)	(601)	(228)
Usable Reserves	(18,278)	(16,020)	(15,484)	(15,071)
Cumulative Net Borrowing Requirement / (Investments)	(18,325)	(16,067)	(15,531)	(15,118)

Table 1 shows that the capital expenditure plans of the authority can be funded entirely from sources other than external borrowing.

2. Interest Rate Forecast

2.1 Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table in Appendix C shows. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop.

3. Borrowing Strategy

3.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

3.2 As indicated in Table 1, the Authority is currently debt free and its capital expenditure plans do not currently imply any external borrowing requirement in 2014/15. However, it should be noted in line with the current Medium Term Financial Strategy (MTFS) the Council may need to consider borrowing to finance its capital programme in the longer term as capital receipts diminish.

4. Annual Investment Strategy

4.1.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

4.1.2 The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

4.3 Investments are categorised as 'Specified' or 'Non Specified' within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

4.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Term Deposits with Housing Associations	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗
Investment with other organisations *	✗	✓

* *Subject to an external credit assessment and specific advice from TM Adviser*

Further details can be found in Appendix D & E

4.5.1 Registered Providers (RPs) have been included within specified and non-specified investments for 2014/15 following on from their use in the 2013/14 financial year. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing. If the RP have a credit rating from one of the agencies we would look at there viability rating and could lend to them on either a secured or unsecured basis on the assets it holds. If the RP does not hold a credit rating but is HCA (Homes & Communities Agency) rated then any investment made would be on a secured basis on the assets (i.e. Homes) it has as security for loans borrowed.

4.5.2 Investments with other organisations have been included as a non-specified investment category for 2014-15. This would include investment opportunities with small and medium sized enterprises (SMEs) and other businesses across the UK. Because of the higher perceived credit risk of SMEs, such investments may provide considerably higher rates of return. An external credit assessment will be undertaken and advice from the Council's TM adviser will be sought (where available) before any investment decision is made.

4.5.3 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix E, the Director of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in the Prudential Indicator on Credit Risk.

4.5.4 Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on rating changes and appropriate action to be taken.

The countries and institutions that currently meet the criteria for investments are included in ***Appendix D.***

4.5.5 **Authority's Banker** – The Authority banks with the National Westminster Bank PLC. At the current time, it does not meet the proposed minimum credit criteria of A- (or equivalent) long term, with two of the three well known credit rating agencies. Even if the credit rating falls below the Authority's minimum criteria National Westminster Bank PLC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

5. Investment Strategy

5.1.1 With short term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

5.1.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

5.1.3 Money market funds (MMFs) will be utilised as they have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager.

5.1.4 Building Societies: The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the council deposits would be paid out in preference to retail depositors. The council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy.

5.4 Collective Investment Schemes (Pooled Funds):

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

The Authority's current investments in Pooled Funds are:

- Investec Short Dated Bond Fund
- Investec Liquidity Fund
- Investec Target Return Fund

In accordance with the Council's Investment Strategy during 2013/14 financial year, £10 million was withdrawn from Investec to invest in alternative investments – (Registered Social Landlords and Corporate Bonds to date). However, the Investec model still struggles to add value or offer a consistent level of return, consequently the Authority is now looking at alternative pooled funds in consultation with Arlingclose.

Investments in pooled funds will be undertaken with advice from Arlingclose Ltd.

Their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored.

6. Policy on Use of Derivatives

6.1 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.

6.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

7. Balanced Budget Requirement

7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2014/15 MRP Statement

8.1.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). This year's policy is as follows:

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method
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Although four options are detailed, the guidance also allows authorities to develop their own method of calculating MRP, providing the method is prudent.

MRP in 2014/15: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
The MRP Statement will be submitted to Council before the start of the 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

8.3.1 For 2014/15 the Council will apply Option 3, the 'Asset Life' Method, which makes revenue provision over the estimated life (in equal instalments) of the asset for which the borrowing is undertaken. MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

8.3.2 Although the Council does not plan to finance capital expenditure through borrowing within the term shown within the current Medium Term Financial Strategy (MTFS), it has a duty to approve a statement of policy to account for the MRP. The requirement is that the MRP Statement is submitted to Council before the start of 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to the Council at that time.

9. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Strategic Director will report to the Finance and Management Overview and Scrutiny Committee on treasury management activity and performance, including the monitoring of Prudential Indicators as follows:

(a) Activity and performance against the strategy approved for the year will be reported regularly to the Finance and Management Overview and Scrutiny Committee and as a minimum a mid-year and year end review.

(b) The Finance and Management Overview and Scrutiny Committee will receive an outturn report on treasury activity no later than 30th September after the financial year end.

(c) The Finance and Management Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

10. Other items

10.1 Training

CIPFA's revised Code requires the Strategic Director 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.

It is proposed:

- the Strategic Director will provide training and guidance for members in the Finance and Management Overview and Scrutiny Committee.
- Officers will attend Treasury training seminars that are new or inexperienced in Treasury Management.
- Officers will attend regular Treasury seminars to maintain and update their skills and knowledge for Treasury Management.

10.2 Investment Consultants / Treasury Advisors

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

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshop and training events
- Ad hoc advice and events.

The Authority maintains the quality of the service with its advisors by holding regular meetings. Arlingclose have been awarded the contract until November 2015.

Prudential Indicators 2013/14 and 2014/15 – 2016/17

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

The revised estimates are the updates to the approved estimates. It is the revised and estimate indicators that are recommended for adoption.

2. Gross Debt and the Capital Financing Requirement:

This is a 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 the debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

The Strategic Director reports that the authority had no difficulty meeting this requirement in 2012/13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2013/14 Approved £'000	2013/14 Revised £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital Programme	2,592	3,720	2,699	2,842	1,146

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	**2013/14 Approved £'000**	**2013/14 Revised £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Capital receipts	1,903	2,138	1,890	391	95
Government Grants / Contributions	489	1,382	409	251	251
Revenue contributions	200	200	400	2,200	800
Total Financing	2,592	3,720	2,699	2,842	1,146

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2013/14 Approved %**	**2013/14 Revised %**	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**
Ratio	-7%	-5%	-7%	-9%	-11%

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	**2013/14 Approved £'000**	**2013/14 Revised £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Total CFR	**1,287**	**1,250**	**910**	**554**	**181**

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	**£'000**
Borrowing	0
Other Long-term Liabilities	1,622
Total	**1,622**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2013/14 Approved £**	**2013/14 Revised £**	**2014/15 Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**
Increase in Band D Council Tax	£0.47	£0.73	£0.75	£0.21	£0.06

7.2 The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, and capital receipts).

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2013/14 Approved £'000**	**2013/14 Revised £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Borrowing	8,000	8,000	8,000	8,000	8,000
Other Long-term Liabilities	1,622	1,297	957	601	228
Total	**9,622**	**9,297**	**8,957**	**8,601**	**8,228**

8.4 The Operational Boundary has been set on the estimate of the most likely i.e. prudent but not worse case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	**2013/14 Approved £'000**	**2013/14 Revised £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Borrowing	4,000	4,000	4,000	4,000	4,000
Other Long-term Liabilities	1,622	1,297	957	601	228
Total	**5,622**	**5,297**	**4,957**	**4,601**	**4,228**

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9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Cabinet meeting on 17 February 2010.

. *The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.*

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

10.2 The Council is debt free and will maintain that position in the medium term. The Council is not planning to borrow long term, but may need the flexibility to borrow on a temporary short term basis to accommodate cash flow fluctuation, within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

10.3 The Council's existing level of fixed or variable rate exposure is nil.

	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	100	100	100	100	100

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11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and 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.

11.2 As the Council is debt free and intends to remain so for the immediate future, this indicator does not apply.

12. Credit Risk:

12.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

12.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

13. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2013/14 Approved £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
	15	**15**	**15**	**15**	**15**

Economic & Interest Rate Forecast

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.40**	**0.40**	**0.40**	**0.45**	**0.45**	**0.50**	**0.50**	**0.50**	**0.55**	**0.55**	**0.55**	**0.60**	**0.60**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.85**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**0.95**	**0.95**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.20**	**1.20**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**2.00**	**2.00**	**2.05**	**2.05**	**2.05**	**2.05**	**2.10**	**2.10**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**2.90**	**2.90**	**2.90**	**2.90**	**3.00**	**3.00**	**3.00**	**3.00**	**3.10**	**3.10**	**3.10**	**3.10**	**3.10**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**3.35**	**3.35**	**3.35**	**3.40**	**3.40**	**3.40**	**3.50**	**3.50**	**3.50**	**3.50**	**3.60**	**3.60**	**3.60**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.1%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for December has fallen to 2%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.

- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector de-leveraging and maintain the corporate credit bottleneck.

Appendix D

Recommended Sovereign and Counterparty List

- **Group Limits -** For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Close Brothers Limited	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Goldman Sachs International Bank	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Leeds Building Society	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	£5m	£7.5m

Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Germany	Landesbank Hessen-Thuringen (Helaba)	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Singapore	DBS Bank Ltd	£5m	£7.5m

Term Deposits / CDs / Call Accounts	Singapore	Oversea-Chinese Banking Corporation	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Singapore	United Overseas Bank	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	£5m	£7.5m
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	£5m	£7.5m
Term Deposits / CDs / Call Accounts	US	JP Morgan	£5m	£7.5m

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if counterparty is downgraded, this list may be shortened.*

Appendix E

Non-Specified Investments

Instrument	Maximum maturity	Max £M of portfolio	Capital expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years		No	
Term deposits with local authorities	2 years		No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years		No	
Investments with organisations which **do not meet** the specified investment criteria (subject to an external credit assessment and specific advice from TM Adviser)	3 months	£5m per counterparty	No	Bank falling below criteria specified e.g. Co-op
	1 year	£1m per counterparty	No	Small & Medium Enterprises
	5 years	£100k per counterparty	Yes/no[1]	
		Subject to a maximum of £3m overall	Yes / No	
Deposits with UK registered providers whose lowest published long-term credit rating is A- or higher	10 years	£5m per counterparty	No	

[1] Depending on the nature of the transaction with the third party

Deposits with UK registered providers whose lowest published long-term credit rating is BBB- or higher and those without credit ratings	5 years	£5m per counterparty	No	
Gilts			No	
Bonds issued by multilateral development banks	10 years	£5m per counterparty	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	10 years	£5m per counterparty	No	
Money Market Funds and other pooled funds	n/a	£5m per counterparty	No	Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund

Appendix F

Summary of Prudential Indicators to be submitted to Council 26 February 2014.

	2013/14 Revised	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
Capital expenditure	£3.720m	£2.699m	£2.842m	£1.146m
Ratio of financing costs to net revenue stream	-5%	-7%	-9%	-11%
Capital financing requirement	£1.250m	£1.910m	£0.554m	£0.181m
Actual External Debt as at 31/03/2013	Nil	Nil	Nil	Nil
Incremental impact of capital investment decisions on the Band D Council Tax	£0.73	£0.75	£0.21	£0.06
Authorised limit external debt	£9.297m	£8.957m	£8.601m	£8.228m
Operational boundary external debt	£5.297m	£4.957m	£4.601m	£4.228m
Adoption of the CIPFA Code of Practice in Treasury Management	Yes	Yes	Yes	Yes
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	100%	100%	100%	100%
Maturity structure of fixed rate borrowing	N/A	N/A	N/A	N/A
Upper Limit for total principal sums invested over 364 days	£15m	£15m	£15m	£15m