DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL			
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 TO 2016/17			
DATE OF DECISION:	3 FEBRUARY 2014 12 FEBRUARY 2014			
REPORT OF:	CHIEF FINANCIAL OFFICER			
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2013/14 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

As at 31 March 2014 the Council's gross external debt is expected to be £361M and the total value of investments is forecast at £43M. The Balance Sheet position as at 31 March 2013 showed the value of debt as £384M and the value of investments as £69M.

The Council's Capital Financing Requirement (CFR), which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure which has not yet been paid for from either revenue or capital resources, is a key driver of the borrowing strategy. The projected CFR for 31 March 2014 is £430M, of which £263M is attributed to the General Fund and the remaining £167M to the Housing Revenue Account (HRA).

The Council's current strategy is to minimise borrowing to below its CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources which include the Public Works Loan Board (PWLB), commercial banks, the European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits, the Authorised Limit, (a statutory limit that sets the maximum level of external borrowing on a gross basis), and the Operational Boundary, (which is determined by both the estimated CFR and day to day cash flow movements). For 2014/15 the proposed Authorised Limit is £760M and proposed Operational Boundary is £750M. These are substantially higher than our anticipated actual level of debt but they allow for a full debt restructure to be undertaken if an appropriate opportunity arises, which may require taking new borrowing in advance of paying off existing loans.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are the security of invested capital, the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and the overall holding with institutions.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. Although not relevant in the present climate, in any period of significant stress in the markets, the default position will be to invest with the governments Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently, this strategy is kept under review and will be realigned, if required, in line with evolving market conditions and expectations for future interest rates.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Endorse the Treasury Management (TM) Strategy for 2014/15 as outlined in the report.

ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved by Council on 12 February 2014. Should the recommendations change, the Prudential Indicators may have to be recalculated.

iii) Note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

i) Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2014/15, 2015/16 and 2016/17, as detailed within the report.

ii) Approve the 2014 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 74 to 83.

iii) Approve the Annual Investment Strategy as detailed in paragraphs 36 to 50.

iv) Note that at the time of writing this report the recommendations in the Capital Programme Update report, submitted to Council on the 12 February 2014, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.

v) Continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

1. In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:

- Treasury Management Strategy for 2014/15:
    - Borrowing – Paragraphs 24 to 33
    - Debt Rescheduling – Paragraphs 34 to 35
    - Investments – Paragraphs 36 to 50
- Use of Specified and Non-Specified Investments – Paragraphs 45 to 49

- MRP Statement – Paragraphs 74 to 83
- Prudential Indicators – Paragraphs 86 to 99

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which are being taken at Full Council on 12 February 2014.

DETAIL (Including consultation carried out)

CONSULTATION

3. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

4. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services, (the "CIPFA TM Code"), and the Prudential Code require local authorities to determine a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS), which is a requirement of the Department for Communities and Local Government's (CLG) Investment Guidance.
6. As per the requirements of the Prudential code, the Authority has adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and has subsequently agreed further updates.
7. The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:
    - Liquidity Risk (Inadequate cash resources)
    - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
    - Inflation Risks (Exposure to inflation)
    - Credit and Counterparty Risk (Security of Investments)
    - Refinancing Risks (Impact of debt maturing in future years)
    - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

8. The purpose of this TMSS is to allow Council to approve:

- Treasury Management Strategy for 2014/15
- Annual Investment Strategy 2014/15
- Prudential Indicators for 2014/15, 2015/16 and 2016/17
- 2014 MRP Statement

9. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 2) has also been taken into account in developing this strategy

10. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

11. Some alternative strategies, with their financial and risk management implications, are listed below.

Options	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

12. All treasury activity will comply with relevant statue, guidance and accounting standards.

Economic Background

13. The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates. The unemployment rate has fallen to 7.1% based on the latest figures published for November 2013. Whilst this figure is very close to the 7% threshold, the threshold is only one element which the MPC will consider in taking decisions around the need to raise interest rates. At the present time other market conditions do not suggest that a rate rise is imminent.

14. The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

15. Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

16. In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook

17. The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will likely suffer a haircut on its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Outlook for Interest Rates

18. The 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. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.70% and 1.10%.

A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix 2.

BALANCE SHEET AND TREASURY POSITION

19. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.

20. As at the 31 December 2013 the Authority had £356M of debt (£282M borrowing plus £74M other long term liabilities) and £52M investments which is set out in further detail in Appendix 1.

21. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2016/17. The Authority is likely to 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 is actually required.

22. The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown below.

	31/03/2014 Estimate £M	31/03/2015 Estimate £M	30/03/2016 Estimate £M	31/03/2017 Estimate £M
General Fund CFR	**263**	**261**	**255**	**245**
Housing CFR	**167**	**185**	**185**	**191**
Total CFR	**430**	**446**	**440**	**436**
Less Other Long Term Liabilities	(78)	(82)	(80)	(76)
Borrowing CFR	**352**	**364**	**360**	**360**
Less External borrowing	(283)	(272)	(260)	(248)
Internal (over) borrowing	**69**	**92**	**100**	**112**
Less Usable Reserves and Net Creditors	(83)	(66)	(54)	(47)
Net Borrowing Requirement / (Internal Borrowing Capacity)	**(14)**	**26**	**47**	**65**

23. In order to demonstrate the Authority's need to borrow the table above reflects the increased capital borrowing and projected CFR as a result of the proposed capital programme and forecast fall in balances but does not include expected borrowing.

BORROWING STRATEGY

24. The Authority is forecast to hold £283M of loans, a decrease of £19M on last year (£302M), as part of its strategy for funding previous years' capital programmes. The Authority expects to borrow up to £36M in 2014/15 to fund the capital programme (£23.5M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £760M.

25. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

26. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

27. By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next two to three years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

28. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

29. The approved sources of long-term and short-term borrowing are:
    - PWLB
    - Local authorities
    - Any institution approved for investments
    - Any bank or building society authorised by the Prudential Regulation Authority to operate in the UK
    - UK public and private sector pension funds (except Hampshire County Council)
    - Capital markets bond investors (stock issues, commercial paper and bills)
    - Special purpose companies created to enable joint local authority bond issues.
    - Leasing

30. The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance,

such as local authority loans and bank loans, that may be available at more favourable rates.

31. The Authority has £9M exposure to LOBO loans all of which can be "called" within 2014/15.

    A LOBO is called when the Lender exercises their right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. Although unlikely in the low interest rate environment LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion. Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

32. The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.5%) between the variable rate and the 30 year fixed maturity will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

33. The Council has exposed itself to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that the Council must monitor markets to ensure it is not caught out. During 2014/15 the Council will continue to review and take action as necessary to lessen this risk through a balanced combination of:

    - longer term fixed maturity loans,
    - medium term Equal Instalment of Principle (EIP) loans which are currently cheaper than longer term fixed,
    - longer term PWLB variable loans which have the option to be fixed at very short notice for a small fee and
    - variable rate investments to take advantage of increasing interest rates, mainly through the use of money market funds (MMF).

    In order to mitigate these risks further, the Council approved the creation of an Interest Equalisation Reserve in 2009. At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. In achieving this, the Council has exposed itself to short term variable interest rate risk and whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. It was therefore recommended that an Interest Equalisation Reserve be created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. The Reserve will be maintained at an appropriate level to protect the Council from future increase in debt charges where it is prudent to do so. The level of the reserve will be reviewed over the next twelve months.

DEBT RESCHEDULING

34. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

35. Borrowing and rescheduling activity will be reported to the Governance Committee in the Annual Treasury Management Report and the mid year update. Regular treasury management reports will also be presented as part of quarterly monitoring to Cabinet.

INVESTMENT POLICY AND STRATEGY

36. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £51M and £116M, and is expected to be maintained between £30M and £50M in the forthcoming year. This is lower than previous years due to falling balances plus the decision to unwind the rolling programme of yearly investments. This decision followed the implementation of the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive that include bail-in provisions that could result in a lower likelihood that the UK and other governments will support failing banks.

37. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. The Authority may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Lower of 10% of overall balances or £10M	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Co-operative Bank plc		£1M	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		Lower of 10% of overall balances or £10M	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£1M each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£1M each	5 years
UK Building Societies without credit ratings		£1M each	1 year
Money market funds and other pooled funds		Lower of 10% of overall balances or £10M	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser		£1M each	3 months
		£1M each	1 year
		£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets

** but no longer than 2 years in fixed-term deposits and other illiquid instruments*

*** but no longer than 5 years in fixed-term deposits and other illiquid instruments*

Appendix 3 gives further information regarding the type of investment listed above.

38. Following the implementation of the EU Bank Recovery and Resolution Directive there is a lower likelihood that the UK and other governments will support failing banks, despite this, there is no intention at this stage to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

39. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

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

41. The Authority banks with the Co-operative Bank which at the current time does not meet the Authority's minimum credit criteria of A- (or equivalent) long term and as reported previously has been subject to financial turmoil in recent months.

As part of the rescue package agreed for the Cooperative Bank in December 2013, the bank is withdrawing from the local authority market. The Authority's contract with the Co-operative Bank ends in September 2014 and a project was already in place prior to the rescue package being agreed. This project is a joint tender with four other Local Authorities who are also with the Co-operative Bank and it is planned to move banks in October 2014 as the contract comes to a natural end.

Risk Assessment and Credit Ratings

42. The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

43. The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

44. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

45. The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-Specified Investments

46. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table below.

	Cash limit
Total long-term investments	£30M
Total investments without credit ratings or rated below A-	£3M
Total investments in foreign countries rated below AA+	£5M
Total non-specified investments	**£38M**

47. The Council's current level of investments is presented at Appendix 1.

Approved Instruments

48. The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £10M in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures

49. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

Liquidity Management

50. The Authority undertakes high level cash flow forecasting to determine the maximum period for which funds may be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

TREASURY MANAGEMENT INDICATORS

51. The Authority measures and manages its exposure to treasury management risks using the following indicators.

Security

52. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

53. We aim to achieve a portfolio average value weighted credit rating of A. Our financial advisors provide details on a quarterly basis which are monitored and reviewed. Our average rate as at December 2013 was A+.

Liquidity

54. The Authority has adopted a voluntary measure of its exposure to liquidity risk by

monitoring the amount of cash available to meet unexpected payments without additional borrowing. We look to take out temporary borrowing when our accessible investment balance fall below £25M.

Adoption of the CIPFA Treasury Management Code

55. The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Upper Limits for Fixed and Variable Interest Rate Exposure

56. The following Prudential 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.

	Existing level at 31/12/2013 %	2013/14 Approved %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure	84	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	16	50	50	50	50

57. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. The limits provide the necessary flexibility 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 TM strategy.

Maturity Structure of Fixed Rate borrowing

58. This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit %	Upper Limit %
Under 12 months	0	45
12 months and within 24 months	0	45
24 months and within 5 years	0	50
5 years and within 10 years	0	75
10 years and above	0	75

59. Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.

60. The table below details the level of our current debt and shows that all debt is within existing limits.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2013 £M	Average Fixed Rate as at 31/12/2013 %	% of Fixed Rate as at 31/12/2013	Compliance with set Limits?
Under 12 months	0	45	15	0.95	6.45	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	84	3.23	35.25	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	10	4.68	4.20	Yes
25 years and within 30 years	0	75	5	4.60	2.10	Yes
30 years and within 35 years	0	75	0	0.00	0.00	Yes
35 years and within 40 years	0	75	42	3.99	17.63	Yes
40 years and within 45 years	0	75	51	3.62	21.24	Yes
45 years and within 50 years	0	75	31	3.56	13.12	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			238	**3.32**	**100.00**	

<u>Principal sums invested for periods longer than 364 days</u>

61. The purpose of this limit is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Upper Limit for total principal sums invested over 364 days	2013/14 Approved £M	2013/14 Revised £M	2014/15 Limit £M	2015/16 Limit £M	2016/17 Limit £M
	50	30	30	30	30

OTHER ITEMS

62. There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivates

63. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). 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.
64. 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.
65. 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.
66. The local authority will only use derivatives after seeking expertise advice, a legal opinion and ensuring officers have the appropriate training for their use.

Policy on Apportioning Interest to the Housing Revenue Account

67. On 1 April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs and income arising from long-term loans, (e.g. premiums and discounts on early redemption), will be charged / credited to the respective revenue account.
68. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate.
69. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards.

The rate will be based on the average return of Government Treasury Bills as interest rate received on investments with commercial organisations, (e.g. banks), includes a credit risk margin, i.e. an element to compensate the lender for the risk that the borrower is unable to repay the investment. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

Training

70. CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was undertaken on the 30 January 2013. The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

Treasury Management Advisors

71. The CLG's Guidance on local government investments recommend that the Investment Strategy should state whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and how the quality of any such service is controlled.

The Council has a contract in place with Arlingclose to provide a treasury advisory service and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support
- Ad hoc advice

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

Investment of Money Borrowed in Advance of Need

72. The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period.

These risks will be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £760M. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

BALANCED BUDGET REQUIREMENT

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

2014/15 MINIMUM REVENUE PROVISION (MRP) STATEMENT

74. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

75. The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

76. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

77. The four MRP options available are:
    - Option 1: Regulatory Method
    - Option 2: CFR Method
    - Option 3: Asset Life Method
    - Option 4: Depreciation Method

    ***NB** This does not preclude other prudent methods to provide for the repayment of debt principal.*

    MRP in 2014/15: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

78. Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.

79. MRP in respect of leases and Private Finance Initiative schemes 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.

80. As noted above the Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP) and to submit this to Council before the start of the financial year.

The TM Strategy Report 2013/14 – 2015/16 stated that:

"Guidance relating to the regulatory method (option 1), which is used to calculate borrowing prior to the prudential regime, allows for debt transferred from Hampshire County Council (HCC) when we became a Unitary Authority in 1997 to be excluded from the MRP calculation as we are already repaying the principal element to HCC. The guidance states that the adjustment should be based on the value of the debt as at the 1 April 2004, however in order to be prudent we reduced the adjustment each year in line with the actual debt outstanding, thus increasing the amount of MRP we needed to pay in year. We are now seeking advice on whether this technical 'overpayment' can be reversed which could result in a one off credit in MRP to the General Fund."

Discussions with our Auditors are ongoing with respect to reducing our MRP charge in 2013/14 by approximately £4.5M (of which £3.9M relates to prior years) as we believe we have overprovided against our annual MRP policy of setting aside the **minimum revenue provision** required by statute / DCLG guidance.

81. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put forward for approval by the Authority at that time.

82. Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.

83. Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2014, the budget for MRP has been set as follows:

	31/03/2014 Estimated CFR £M	**2014/15 Estimate MRP £M**
Capital expenditure before 01.04.2008	94.6	3.84
Unsupported capital expenditure after 31.03.2008	90.3	3.10
Finance leases and Private Finance Initiative	61.9	1.87
Transferred debt	16.3	0.65
Total General Fund	**263.1**	**9.45**
Assets in the Housing Revenue Account	100.3	Nil
HRA subsidy reform payment	66.8	5.28
Total Housing Revenue Account	**167.1**	**5.28**
Total	**430.2**	**14.73**

MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS

84. The Chief Financial Officer will report to the Governance Committee on TM activity and performance as follows:

    (a) A mid year review against the strategy approved for the year.

    (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

85. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

PRUDENTIAL INDICATORS

Background

86. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement

87. 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 debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The CFO reports that the Authority had no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

88. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below details our expected debt position and the year-on-year change to the CFR:

	31/03/2014 Revised £M	31/03/2015 Revised £M	31/03/2016 Revised £M	31/03/2017 Revised £M
Borrowing	184.9	178.6	175.2	168.9
Finance leases and Private Finance Initiative	61.9	66.9	64.7	62.0
Transferred debt	16.3	15.6	15.0	14.4
Total General Fund Debt	**263.1**	**261.1**	**254.9**	**245.3**
HRA	167.1	184.8	185.4	190.3
Total	**430.2**	**445.9**	**440.3**	**435.6**

Capital Financing Requirement	2013/14 Approved £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Balance B/F	**437.0**	**433.2**	**430.2**	**445.9**	**440.3**
Capital expenditure financed from borrowing (inc PFI)					
General Fund (GF)	14.0	11.7	10.7	3.8	1.1
HRA	7.0	8.9	23.1	5.9	10.2
GF Temporary Funding (Repayment)	(6.0)	(5.9)	(3.4)	0.0	0.0
HRA Voluntary Repayment of Debt	(6.0)	(5.6)	(5.3)	(5.3)	(5.3)
GF Revenue provision for debt Redemption.	(7.0)	(9.0)	(6.9)	(7.2)	(7.4)
Movement in Other Long Term Liabilities	(2.0)	(3.1)	(2.5)	(2.8)	(3.3)
Cumulative Maximum External Borrowing Requirement	**437.0**	**430.2**	**445.9**	**440.3**	**435.6**

Estimates of Capital Expenditure

89. 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 and in the case of the HRA, housing rent levels.

Capital Expenditure	2013/14 Estimate £000's	2013/14 Revised £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
General Fund	47,034	55,501	56,141	20,308	568
HRA	31,196	36,969	53,399	37,018	42,355
Total	**78,230**	**92,470**	**109,540**	**57,326**	**42,923**

90. The table below details how capital expenditure is expected to be financed and shows that the Authority cannot finance this without the need for external borrowing.

Capital Financing	2013/14 Estimate £000's	2013/14 Revised £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Capital receipts	17,758	14,888	12,277	9,675	3,655
Government Grants	30,946	37,158	33,388	11,481	127
Contributions	3,519	3,704	13,574	1,895	200
Major Repairs Allowance	17,172	16,116	17,931	18,317	18,711
Revenue	8,471	14,288	12,339	9,758	10,075
Total Financing	**77,866**	**86,154**	**89,509**	**51,126**	**32,768**
Temporary Financing	(5,860)	(6,000)	(3,400)	0	0
Unsupported borrowing	6,224	12,316	23,431	6,200	10,155
Total Funding	**364**	**6,316**	**20,031**	**6,200**	**10,155**
Total Financing & Funding	**78,230**	**92,470**	**109,540**	**57,326**	**42,923**

Ratio of Financing Costs to Net Revenue Stream

91. 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 ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme

92. This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Forecast %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	6.78%	6.98%	6.96%	8.31%	9.75%
HRA	17.51%	16.36%	16.33%	16.46%	16.46%
Total	10.43%	10.32%	10.39%	11.81%	13.17%

Incremental Impact of Capital Investment Decisions

93. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are estimated to be:

Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase / (decrease) in Band D Council Tax	(10.11)	(1.27)	0.23	0.52
Increase /(decrease) in Average Weekly Housing Rents	14.02	27.81	37.22	11.41

94. The decision to restrict the capital programme and to use capital receipts to repay temporary financing results in an incremental decrease in the Band D Council Tax for 2013/14 and 2014/15. For the HRA rent levels are set using the Governments rent restructuring formula as guidance and this is independent of the level of capital investment and borrowing. The use of the rent restructuring formula was due to end in 2016/17 but there is a proposal, out for consultation, to bring this forward by one year to 2015/16 and after that for rents to be increased by CPI plus 1% without a restructuring element. The calculation of the indicator ignores these factors.

Authorised Limit and Operational Boundary for External Debt

95. 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.

96. 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 borrowing 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. 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, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. 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 £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Borrowing	817	669	674	699	712
Other Long-term Liabilities	81	81	86	91	88
Total	**898**	**750**	**760**	**790**	**800**

97. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow 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 £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Borrowing	794	665	672	688	693
Other Long-term Liabilities	75	75	78	82	87
Total	**869**	**740**	**750**	**770**	**780**

98. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

HRA Limit on Indebtedness

99. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing.

HRA Summary of Borrowing	2013/14 Approved £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Brought Forward	168.8	163.8	167.15	185.1	185.9
Maturing Debt	(5.6)	(5.6)	(5.1)	(5.1)	(5.1)
New borrowing	12.5	8.90	23.06	5.86	10.17
Carried forward	**175.7**	**167.1**	**185.1**	**185.9**	**191.0**
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	**23.9**	**32.5**	**14.5**	**13.7**	**8.6**

RESOURCE IMPLICATIONS

Capital

100. The capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the Council agenda.

Revenue

101. The budget for investment income in 2014/15 is £0.2M, based on an average investment portfolio of £45M at an average interest rate of 0.5%. The budget for debt interest paid in 2014/15 is £10.3M based on an average debt portfolio of £308.2M at an average interest rate of 3.34%.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different

102. The CLG Guidance and the CIPFA Code do not prescribe any particular TM Strategy for local authorities to adopt. The CFO, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness, the Revenue implications of which have been considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the Council agenda.

Property/Other

103. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

104. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

105. None

POLICY FRAMEWORK IMPLICATIONS

106. This report has been prepared in accordance with CIPFA's Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	Existing Investment & Debt Portfolio Position and Projections
2.	Economic and Interest Outlook
3.	Approved investment counterparties
4.	Treasury Management Policy Statement
5.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 TO 2015/16 – Council 13 February 2013	