APPENDIX

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2014/15

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee considered the contents of Treasury Management Strategy Statement and Annual Investment Strategy at its meeting held on 10th February 2014. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly treasury management updates	Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end
Treasury Management Practices	Director of Corporate Resources	
Review of Treasury Management Strategy/Annual Investment Strategy	Corporate Governance Committee	Annually before start of financial year and before consideration by full Council
Review of Treasury Management Performance	Corporate Governance Committee	Annually by end of September following year end

Treasury Management Strategy 2014/15

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (as required by Investment Guidance issued subsequent to the Act) and this is included as paragraphs 24 – 36 of this strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2014/15 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services (formerly called Sector Treasury Services).

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

Balanced Budget Requirement

3. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increase in charges to revenue from:-

   i) increase in interest charges caused by increased borrowing to finance additional capital expenditure, and
   ii) Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Treasury Limits for 2014/15 to 2017/18

4. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit" the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in annex 2 of this report.

Current Portfolio Position

5. The Council's treasury portfolio position at 31st December 2013 was:

		Principal £m	Average Rate %
Fixed Rate Funding	PWLB	188.10	6.168
	Market	95.50	4.492
Variable Rate Funding	Market	10.00	3.990
Other Long Term Liabilities		0.00	
		293.60	5.549
Total Investments		150.50	0.668
Net debt		143.10	

The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, we have the option of accepting the new rate or repaying the loan. Where the first opportunity for the lender to do this has already passed the loan has been classed as 'fixed rate' even though, in theory, the rate could change in the future. Where the first option to increase the rate has not yet passed, the funding has been classified as 'variable rate'.

Borrowing Requirement

6. It is not currently anticipated that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2014/15 – 2017/18), and it is also expected that maturing loans will not be replaced. There are a number of reasons that no new net borrowing is expected, including the current position of having internal indebtedness (at 31st March 2014 £24.4m of historical capital spending will be financed through internal cash resources), a change by the Government to switch capital approvals to grants as opposed to borrowing

approvals, no unsupported borrowing included in the MTFS and the level of Minimum Revenue Provision (See Annex 1) that will be generated over the period.

7. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt is expected to marginally exceed the Capital Financing Requirement towards the end of the MTFS period, the amount is minimal and if there is a cost-effective opportunity (most probably the early repayment of existing debt) to stop this happening it will be considered.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement	**321,047**	**302,973**	**283,803**	**272,380**
New Borrowing	0	0	0	0
Minimum Revenue Provision	(18,074)	(19,170)	(11,423)	(10,985)
Closing Capital Financing Requirement	**302,973**	**283,803**	**272,380**	**261,395**
Opening external debt	**293,600**	**285,600**	**275,100**	**274,600**
Loans maturing	(8,000)	(10,500)	(500)	(10,000)
Closing external debt	**285,600**	**275,100**	**274,600**	**264,600**
Underborrowed/(borrowing requirement)	**17,373**	**8,703**	**(2,220)**	**(3,205)**

Prudential and Treasury Indicators for 2014/15 – 2017/18

8. Prudential and Treasury Indicators (as set out in the tables in annex 2 to this report) are relevant for the purpose of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management, and this was adopted in February 2010.

Prospects for Interest Rates

9. It appears highly unlikely that there will be any increase in UK bank base rates during 2014 and the consensus economic forecast is that there will also be no increase during 2015. The timing and extent of increases from this level is highly dependent on economic growth in not just the UK, but also the rest of the developed world. The general consensus is that base rates will remain below what was previously considered a normal range (4% - 6%) for a significant period of time.

10. The range of forecasts produced by economists is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 – 3 years. There is, of course, a possibility of economic growth accelerating more than is currently predicted and if any acceleration gains traction, base rate rises may happen more quickly and more aggressively than is currently predicted. The new Governor of the Bank of England has issued ‘forward guidance’ which suggests that base rate rises will not happen until 2016, although there are various caveats that would allow rates to increase before this date.

Borrowing Strategy

11. The outlook for borrowing rates - which are linked to Government bond (gilt) yields – is difficult to predict. The last 12 – 18 months has seen an increase in the yields on UK Government bond yields, albeit from multi-generational lows. Supply of gilts is likely to be meaningful for a number of years and quantitative easing (which has seen the Bank of England purchase sizeable amounts of gilts) will eventually end so the demand/supply dynamic appears to point to higher gilt yields, and hence higher borrowing rates. Any setback in economic growth may, however, cause investors to reassess the outlook for returns from other assets and a period of stable, or even falling, gilt yields can not be ruled out.

12. Although borrowing from the Public Works Loans Board (PWLB) is still generally the most attractive available to the authority, the sizeable margin of loans above gilt yields does not make the borrowing as attractive as it has been historically. The use of internal borrowing using available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.

13. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out. Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

External v. Internal Borrowing

14. The Council currently has significant cash balances invested, and at the end of December 2013 these stood at £150.5m. These balances relate to a number of different items – reserves and provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them – but only a small amount of the balances relate to the General County Fund Reserves.

15. The Council has, since January 2009, repaid £74.2m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme over this period, and internal borrowing is expected to stand at £27.4m at the end of the current financial year. This internal borrowing is, effectively, being financed through the loss of interest that would otherwise have been earned by lending the money, which is currently below 0.5%. This internal borrowing has been extremely cost-effective, but the cost of it will increase broadly in line with base rates in the years ahead.

16. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

Policy on borrowing in advance of need

17. The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. If value for money can be demonstrated by borrowing in advance this option may be taken, but only if it is felt that the money can be invested securely until the cash is required.

18 In determining whether borrowing will be taken in advance of the need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need.
- ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered
- evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
- consider the merits (or otherwise) of other forms of funding
- consider a range of periods and repayment profiles for the borrowing.

19. The current position in respect of the significant level of internal borrowing and a move by Central Government to replace borrowing approvals for capital projects with grants makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.

Debt Rescheduling/Premature Debt Repayment

20. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously.

21. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is not overly focussed into a single year will be avoided. Changes in recent years to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.

22. If there is a continuation of the increases in medium and long-term premature repayment rates that have occurred over the last 12 – 18 months, there is a possibility that premature repayment of existing debt (without any replacement) might become attractive. This type of action would involve an increase in internal debt from its current levels, and would only be carried out if it was considered likely to be beneficial in the medium term.

23. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.

Annual Investment Strategy

Investment Policy

24. The Council will have regard to the CLG's Guidance on Local Authority Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

- the security of capital and
- the liquidity of its investments

25. The Council will aim to achieve the optimum return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. Borrowing money purely to invest or on-lend is unlawful and this Council will not engage in such activity.

26. The investment instruments identified for use in the financial year are listed below, split between 'Specified' and 'Non-Specified', and counterparties and their limits will be set in line with the criteria shown in annex 3. A 'Specified' investment can be generally categorised as one which is liquid (i.e. less than 1 year in maturity) and is lent to a counterparty with a high credit rating. A 'Non-Specified' investment does not satisfy at least one of these criteria, but in this Council's case the relaxation relates to the loan period and not the credit rating – counterparty risk will not be compromised. It is worth noting that although the policy allows for investments of over 1 year, there is only one counterparty (HSBC) which currently has a sufficiently strong credit rating to allow lending for over 1 year to take place.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum (1)
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100
UK Government Treasury Bills	Yes	Government-Backed	1 year	100
Term deposits with credit-rated institutions with maturities up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100
Money Market Funds	Yes	At least as high as acceptable credit – rated banks	Dependent on cash flow requirements	£125m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA's do not have credit ratings, but high security	1 year	50
* Term Deposits with credit-rated institutions	No	Varied acceptable	3 years$^{\emptyset}$	25†

where borrower has option of extending repayment date beyond 1 year (commonly referred to as 'callables')		credit ratings, but high security		
* Term Deposits with credit – rated institutions with fixed maturity period of between 1 and 2 years.	No	Varied acceptable credit ratings, but high security	2 years[ø]	20†
* Term Deposits with credit –rated institutions with fixed maturity period of between 2 and 3 years.	No	Varied acceptable credit ratings, but high security	3 years[ø]	10†

(1) As the value of the investment portfolio is variable, limit applies at time of agreeing investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.

* Non-specified investments

† Total maximum of investments greater than 1 year will be limited to 40% of the portfolio.

ø For the sake of clarity, if a forward deal (one where the start of the investment is at some future date) is agreed, the maximum period commences on the first date of investment.

Local Authority Mortgage Scheme
Under this scheme the Council will place funds of up to £10m, for a period of up to 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

Leicestershire Local Enterprise Fund
Up to £1m has been made available for loans to small and medium-sized Leicestershire businesses via this Fund, which is administered by Funding Circle. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

Creditworthiness policy

27. The Council has set its own criteria in respect of what credit ratings are required for a counterparty to be classed as acceptable. These criteria (which are included in annex 3) use both Fitch and Moody's ratings as the central plank of the decision on which counterparties are acceptable, but also rely on a number of other factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). News stories will also be taken into account as long as there appears to be some verifiable basis of fact in them.

28. Through its Treasury Management advisor, Capita Asset Services (formerly known as Sector Treasury Services), the Council receives weekly information in respect of credit ratings and the level of Credit Default Swaps, plus any rating changes or changes to outlook as and when these happen. These reports are monitored within a

short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical.

Country Limits

29. The current criteria include a requirement for the country of domicile for any counterparty to be AAA-rated, with the exception of the UK. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford this. There are also limits on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk. Due to downgrades in sovereign credit ratings over the last few years, there are now relatively few AAA-rated countries.

30. For the avoidance of doubt, UK-domiciled financial institutions will not be excluded despite the fact that the UK no longer has an AAA rating, as long as their own credit rating meets the required criteria.

Investment Strategy

31. The investment strategy shall be to only invest in those institutions which are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.

Policy on the use of external service providers

32. External investment managers will not be used, except to the extent that a Money Market Fund can be considered an external manager.

33. The Council uses Capita Asset Services as its external treasury management advisers, but recognises that responsibility for treasury management decisions remains with the organisation at all times. Undue reliance on our external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

Scheme of Delegation

34. (i) Full Council
- Approval of annual strategy
- Other matters where full Council approval is required under guidance or statutory requirement

(ii) Cabinet
- Approval of updates or revisions to strategy during the year
- Approval of Annual Treasury Outturn report

(iii) Corporate Governance Committee
- Mid-year treasury management updates (usually quarterly)
- Review of treasury management policy and procedures, including making recommendations to responsible body
- Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

(iv) Director of Corporate Resources
- Day-to-day management of treasury management, within agreed policy
- Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

35. The Section 151 Officer is the Director of Corporate Resources, who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

36. This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1st April 2010 will comply with the requirements of SI 2009 No 393.

ANNEX 1

ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)

Statutory regulations introduced in 2008 require local authorities to make prudent provision for the repayment of debt raised to finance capital expenditure. In addition a statement of the level of MRP has to be submitted to the County Council for approval before the start of the next financial year.

Prudent Provision.

The definition of what is prudent provision is now to be determined by each local authority based on guidance rather than statutory regulation

It is proposed that provision is made on the following basis:

Government supported borrowing (through the formula grant system):

Retention of the pre 2003 arrangements whereby provision for repayment is based on 4% of outstanding debt (i.e. repayment over approximately 25 years) including an optional adjustment used in the transition to the new system in 2004 to avoid debt repayment being higher than under the previous system.

Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 1st April 2008:

Provision to be based on the estimated life of the asset to be financed by that borrowing, with repayment by equal annual instalments.

The County Council will also look to take opportunities to use general underspends and one off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs. During 2013, the Cabinet agreed to use the balance of in year underspends to make additional revenue provision in 2013/14, an estimate of £5m is included as at January 2014. The MTFS 2014-18 includes a further contribution of £12.2m (2014/15 £5.2m, 2015/16 £7m).

Financial Implications

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2014/15 totals £18.1m. This comprises £17.7m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

The extent of unsupported borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 25 years has been taken as proxy for the average life of assets contained within the discretionary component of the Capital Programme.

ANNEX 2

PRUDENTIAL AND TREASURY INDICATORS

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Expenditure	£61.4m	£69.8m	£64.3m	£70.9m	£60.7m	£31.9m
Capital financing requirement	£340m	£321m	£303m	£284m	£272m	£261m
Ratio of financing costs to net revenue stream	6.51%	7.33%	7.24%	7.92%	5.73%	5.60%
Impact on Band D Council Tax	£1.56	£1.55	£1.52	£2.13	£2.15	£2.18

The projected level of capital expenditure shown above, differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional resources that may become available to the authority during the course of a year, typically further developer contributions arising from housing development. Capital expenditure for 2017/18 is less than previous years as government funding for CYPS has not been allocated.

The capital financing requirement measures the authorities need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties e.g. developer contributions. The decreasing balance in the capital financing requirement reflects the change in government resources from supported borrowing allocations to capital grant and the recognition in the Capital Strategy for no or limited unsupported borrowing.

The prudential code includes the following as a key indicator of prudence:

‘In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years’. It is anticipated this requirement will be met having taken into account current commitments, existing plans, and the proposals in the budget report.

The key indicator of affordability is the impact of capital expenditure on Council Tax. This is relatively stable over the periods shown and reflects the scheduling of decisions for no or limited unsupported borrowing.

In respect of external debt, it is recommended that the Council approves the following limits for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Corporate Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Operational boundary for external debt

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	309.0	290.1	280.8	270.9
Other long term liabilities	1.5	1.4	1.3	1.2
TOTAL	**310.5**	**291.5**	**282.1**	**272.1**

Authorised limit for external debt

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	319.0	300.1	290.8	280.9
Other long term liabilities	1.5	1.4	1.3	1.2
TOTAL	**320.5**	**301.5**	**292.1**	**282.1**

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2014/15 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2013/14 indicators with the latest forecast

In February 2013 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	Prudential Indicator Set 2013/14	Latest Projection 14/01/14
Actual Capital Financing Costs as a % of Net Revenue Stream	6.55%	7.33%
Capital Expenditure	£74.4m	£69.8m
Operational Boundary for External Debt	£347.7m	£325.6m
Authorised Limit for External Debt	£357.7m	£335.6m
Interest Rate Exposure – Fixed	50-100%	93%
Interest Rate Exposure – Variable	0-50%	7%
Capital Financing Requirement	£336m	£321m

The latest forecast of external debt, £293.6m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2013/14. The maturity structure of debt is within the indicators set. The latest projection for the Capital Financing Requirement includes voluntary additional provision of £5m in 2013/14 (funded from 2013/14 revenue underspends – see MRP strategy). This has led to the increase in the latest projection of actual capital financing costs, to 7.33% compared with the original indicator of 6.55%.

Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:

a) Upper limits on fixed interest and variable rate external borrowing.
b) Upper and lower limits for the maturity structure of borrowings.
c) Upper limit for principal sums invested for periods longer than 364 days.

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:

a) An upper limit on fixed interest rate exposures for 2014/15 to 2017/18 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2014/15 to 2017/18 of 50% of its net outstanding principal sums.

b) Upper and lower limits for the maturity structure of its borrowings as follows: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit %	Lower Limit%
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

c) An upper limit for principal sums invested for periods longer than 364 days is 40% of the portfolio.

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

ANNEX 3

POLICY ON APPROVED ORGANISATIONS FOR LENDING

APPROVED ORGANISATIONS FOR LENDING

Institution	Maximum Sum Outstanding/Period of Loan
UK Clearing Banks and UK Building Societies	£25m/24 months up to £50m/36 months (subject to acceptable credit rating – see table below)
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Foreign Banks	£5m/12 months up to £10m/12 months depending on credit rating (subject to acceptable credit ratings – see table below)
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months

Institutions will be removed from the list where there are doubts about their security. Any institution whose Credit Default Swaps (CDS) rating is shown as 'Out of Range' by Sector Treasury Services shall be removed from the list.

5. MATRICES FOR ACCEPTABLE CREDIT RATINGS

UK Banks and Building Societies (note: The UK does not have to maintain an AAA rating)

Maximum Sum Outstanding	£50m	£40m	£25m
Maximum Loan Period	3 years	3 years	2 years
Minimum Fitch Ratings	Short-term F1+ Long-term AA Support 1 Viability a+	Short-term F1+ Long-term AA- Support 1 Viability a+	Short-term F1+ Long-term AA- Support 1 Viability a
Minimum Moody's Ratings	Short-term P-1 Long-term Aa2 Financial Strength C+	Short-term P-1 Long-term Aa3 Financial Strength C+	Short-term P-1 Long-term Aa3 Financial Strength C

Banking groups that are at least 20% owned by the UK Government and maintain a support rating of '1' on the Fitch ratings can be included on the list of acceptable counterparties for an amount of £40m for up to 1 year, as long as their short-term ratings do not fall below F1 (Fitch) and P-2 (Moody's), and their long-term ratings are maintained at least at A (Fitch) and A2 (Moody's).

Overseas Banks (must be domiciled within a country with an AAA rating by Fitch, Aaa with Moody's and AAA with S & P)

Maximum Sum Outstanding	£10m	£5m
Maximum Loan Period	1 year	1 year
Minimum Fitch Ratings	Short-term F1+ Long-term AA+ Support 1 Viability aa-	Short-term F1+ Long-term AA Support 1 Viability aa-
Minimum Moody's Ratings	Short-term P-1 Long-term Aa1 Financial Strength B	Short-term P-1 Long-term Aa2 Financial Strength B

A maximum of £15m can be invested with all banks domiciled within a single country.

All institutions must satisfy BOTH the Fitch and Moody's rating requirements. In effect it is the lower of the ratings of these two agencies which will dictate acceptability and maximum period/amount.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Corporate Resources will make recommendations to Cabinet and/or Corporate Governance Committee in respect of what action to take. It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

ANNEX 4

TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

1. This organisation defines its treasury management activities as:

   " The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2. This organisation regards the successful identification, monitoring and control of risk to be 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 organisation.

3. This organisation acknowledges that effective treasury management 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 treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.