APPENDIX 4

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 5 FEBRUARY 2013

Title of report	**THE TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 AND PRUDENTIAL INDICATORS 2013/14 TO 2015/16**
Key Decision	a) Financial Yes b) Community Yes
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Chief Executive 01530 454500 christine.fisher@nwleicestershire.gov.uk Head of Finance 01530 454520 ray.bowmer@nwleicestershire.gov.uk
Purpose of report	This report outlines the expected treasury operations for the forthcoming financial year and sets out the Authority's prudential indicators for 2013/14 – 2015/16. It fulfils three key requirements of the Local Government Act 2003: • The Treasury Management Strategy Statement in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Annual Investment Strategy in accordance with the Communities and Local Government (CLG) Investment Guidance; • The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities. • The Policy for the Annual Minimum Revenue Provision.
Reason for Decision	These are statutory requirements.
Council Priorities	Value for Money
Implications: Financial/Staff Link to relevant CAT Risk Management	 Not applicable. Could impact upon all Corporate Action Teams (CATs). Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice.

Equalities Impact Assessment Human Rights Transformational Government	Not applicable. Not applicable. Not applicable.
Comments of Head of Paid Service	The report is satisfactory
Comments of Section 151 Officer	The report is satisfactory
Comments of Monitoring Officer	The report is satisfactory
Consultees	None.
Background papers	The CIPFA Prudential Code – hard copy available in Accountancy Section.
Recommendations	**RECOMMEND THE TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 (APPENDIX A), PRUDENTIAL INDICATORS -REVISED 2012/13 AND 2013/14 TO 2015/16 (APPENDIX B) AND THE ANNUAL MINIMUM REVENUE PROVISION STATEMENT (APPENDIX C), FOR APPROVAL BY FULL COUNCIL.**

1.0 INTRODUCTION

1.1 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 the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 As per the requirements of the Prudential code, the Authority adopted the CIPFA Treasury Management Code at a meeting of the Cabinet on 16 June 2009.

1.3 CIPFA has defined Treasury Management as: "the management of the organisation'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."

1.4 The TMSS and prudential indicators ensure that the Authority complies with statutory, regulatory, and professional (CIPFA) requirements.

The TMSS sets out:

a. Background information used to determine borrowing and investment requirements (paragraphs 2.2 and 2.3).
b. Organisational roles and responsibilities (paragraph 1.7).
c. The role of the Authority's treasury advisor (paragraph 1.8).
d. Reporting and monitoring of treasury management activity (paragraph 1.9).
e. Borrowing and debt rescheduling strategies. General Fund interest payments on existing debt are estimated at £665,781 in 2013/14.
f. Investment Strategy. Security of capital is the first and most important investment policy objective. Total investment income is estimated at £68,000 in 2013/14 (General Fund - £43k, HRA - £25K).
g. Treasury Management Prudential Indicators for 2013/14 to 2015/16. These are designed to monitor borrowing limits, debt levels and investment returns.

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

1.5 The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification; monitoring and control of risk are important and integral elements of treasury management activities. The main risks to the Authority's treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (inadequate cash resources)
- Market or Interest Rate Risk (fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk

1.6 The Treasury Management Strategy Statement reviews:

- the economic background and outlook for U.K. interest rates,
- implications for treasury activity,
- the Authority's current balance sheet and treasury position,
- the Authority's Borrowing Strategy,
- the Authority's Debt Restructuring Strategy,
- the Authority's Investment Policy and Strategy,
- the Authority's Prudential Indicators 2013/14 to 2015/16,
- the Authority's Minimum Revenue Position.

1.7 Organisational Roles and Responsibilities

In accordance with CIPFA guidance, the roles and responsibilities of the Authority's Treasury Management function are divided between several responsible officers and are summarised below:

<u>(Section 151 Officer)</u> – overall responsibility for the treasury management function to include:

Ensuring the organisation of the treasury management function is adequate to meet current requirements:

- Investment, borrowing and debt rescheduling decisions.
- Monitoring adherence to approved Treasury Management Strategy Statement.

- Regular reporting to Members on treasury management activity.

Finance Team Manager (Deputy Section 151 Officer) – ensuring that day to day treasury activities comply with the approved Treasury Management Strategy Statement.

Technical Accountant – identification of investment opportunities / borrowing requirements and acts as the Authority's interface with brokers and counterparties.

1.8 The Role of the Authority's Treasury Advisor

The Authority currently employs Arlingclose Ltd. as treasury advisor to provide the following services; strategic treasury management advice, advice relating to Housing & Capital finance, economic advice and interest rate forecasting, debt restructuring and portfolio review (structure and volatility), counterparty creditworthiness and training, particularly investment training, for Members and officers.

Arlingclose has assured the Authority that it has no pecuniary links with any money broking organisations, banks, building societies or fund management companies and is entirely remunerated by its clients. This position was confirmed in the CIPFA Treasury Management Panel Bulletin dated March 2010.

1.9 Reporting and Monitoring of Treasury Management Activity

The Treasury Management Stewardship Report for 2012/13 will be presented to the Cabinet and then Audit and Standards Committee for scrutiny as soon as possible after the end of the financial year. As in previous years, this will be supplemented by in-year reporting of treasury management activity and monitoring of prudential indicators, to the Audit and Standards Committee during 2013/14.

This report, together with all other reports to Council, Cabinet and the Audit and Standards Committee are a public record and can be viewed on the Authority's website. This demonstrates compliance with CLG Guidance on local government investments, which recommends that the initial strategy, and any revised strategy, should, when approved, be made available to the public free of charge, in print or online.

2.0 THE TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14

2.1 The purpose of this Treasury Management Strategy Statement is to set out for approval

- The Borrowing Strategy 2013/14 (**APPENDIX A**)
- The Debt Rescheduling Strategy 2013/14 (**APPENDIX A**)
- The Annual Investment Strategy 2013/14 (**APPENDIX A**)
- The Prudential Indicators 2013/14 to 2015/16 (**APPENDIX B**)
- The Annual Minimum Revenue Position (**APPENDIX C**)

2.2 Economic Background.

- In the Autumn Statement, the Chancellor announced the austerity drive will extend into 2018. Growth forecasts were trimmed with the trend level of UK growth of 2.7% forecast to be achieved by 2016.

- Consumer Price Inflation (CPI) has fallen to 2.7% in December 2012 from a peak of 5.2% in October 2011. CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- The Eurozone is making slow headway curtailing some of the immediate risks. Full-fledged banking and fiscal union is still some years away.
- Markets remain cautious as the resolution of the US 'Fiscal Cliff' was postponed into 2013 by a short term deal.

2.3 Outlook For UK Interest Rates:

The Authority's treasury advisor's current central case forecast for the UK Bank Rate is set out below.

March 2013	June 2013	Sept. 2013	Dec. 2013	March 2014	June 2014	Sept. 2014	Dec. 2014	March 2015
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

As Members will note, base rate is forecast to remain unchanged for the foreseeable future.

3.0 IMPLICATIONS FOR TREASURY ACTIVITY

3.1 The economic outlook and the financial health of both sovereign states and major banks still provide major challenges for treasury activity, particularly investment activity, during financial year 2013/14.

3.2 The proposed suite of treasury policies, and the principles which underpin them, remain broadly unchanged from previous years. Borrowing will be prudent, minimise borrowing costs and maintain the stability of the debt maturity portfolio. Debt rescheduling should achieve interest savings, carry minimal risk and maintain the stability of the debt maturity portfolio. Investments will be based upon the principles of security, liquidity and yield (and prioritised in that order).

3.3 The Treasury Management Strategy Statement will be monitored throughout the year and, if necessary, amended and brought back to Members for approval.

4.0 THE AUTHORITY'S CURRENT BALANCE SHEET AND TREASURY POSITION

4.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with balances and reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m	31 Mar 15 Estimate £m	31 Mar 16 Estimate £m
CFR	91.503	91.217	90.790	89.882
Balances & Reserves	5.000	5.000	5.000	5.000
Net Balance Sheet Position	**86.503**	**86.217**	**85.790**	**84.882**

4.2 The Authority's level of physical debt and investments is linked to these components of the Balance Sheet. Market conditions, interest rate expectations and credit risk considerations will influence the Authority's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

4.3 As the CFR represents the underlying need to borrow for capital purposes, and revenue expenditure cannot be financed from borrowing, physical external borrowing should not exceed the CFR - other than for short term cash flow requirements. It is permissible, under the Prudential Code, to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place, the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case, borrowing should not exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and next two financial years, other than in the short term due to cash flow requirements.

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14

BORROWING STRATEGY 2013/14

The Authority prefers to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Authority's Prudential Indicators.

The Authority will keep under review the following borrowing options:

- Internal
- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Local authority bills
- Leicester and Leicestershire Enterprise Partnership (LLEP)
- Structured finance

Notwithstanding the issuance of PWLB Circular 147 on 20th October 2010, which increased the cost of new local authority fixed rate loans to approximately 1% above the cost of the Government's borrowing; the PWLB remains an attractive source of funding, given the transparency and control that its facilities continue to provide.

PWLB variable rates and temporary borrowing rates from the markets are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period.

Borrowing activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Standards Committee.

DEBT RESCHEDULING STRATEGY 2013/14

The Authority will continue to maintain a flexible policy for debt rescheduling.
The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for rescheduling will be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.
- Reduce investment balances and credit exposure via debt repayment

Any rescheduling activity will be undertaken within the Authority's Treasury Management Policy and Strategy. The Authority will agree in advance with its treasury advisor, the strategy and framework within which debt will be repaid / rescheduled, should opportunities arise. Thereafter, the Authority's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by the Authority's treasury advisor and discussed with the Authority's officers.

All rescheduling activity will comply with local authority regulatory requirements.

Debt rescheduling activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

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ANNUAL INVESTMENT STRATEGY 2013/14

Background

Guidance from the CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be approved by Full Council.

Investment Policy

To comply with the CLG's Investment Guidance and best practice, the Authority's primary policy objective is to invest its surplus funds prudently. The Authority's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The Authority will not borrow money in advance of need for the purpose of investing at a higher rate. The speculative practice of borrowing purely in order to invest is unlawful.

The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the authority. The Authority will continue to maintain a counterparty list based on its high creditworthiness criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength (for example, statements of potential government support, share prices and credit default swap data). The Authority will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

Investment Strategy

The UK Bank Rate has been maintained at 0.5% since March 2009 and is projected to remain at this level for some considerable time. Accordingly, short-term money market rates are forecast to remain at historically low levels which will have a significant impact on investment income. The Authority's Strategy is geared towards this development whilst adhering to the principal objective of security of invested monies.

The Section 151 Officer, 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.

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

INVESTMENT GUIDANCE AND COUNTERPARTY CRITERIA

In accordance with CLG Guidance, investments fall into two categories, Specified and Non-Specified.

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high credit quality” as determined by the Authority
- is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

All investments that do not meet the criteria above are considered non-specified

Investments identified for the Authority’s use are:

- Deposits in the Government’s Debt Management Office’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies who meet the counterparty criteria set out below
- Certificates of deposit with banks and building societies
- Gilts : (bonds issued by the UK Government)
- Treasury Bills (T-Bills) issued by the UK Government
- Bonds issued by multilateral development banks
- AAA rated Money Market Funds with a Constant Net Asset Value investing predominantly in government securities
- AAA rated Money Market Funds with a Constant Net Asset Value investing in primarily financial institutions
- Other Money Market and Collective Investment Schemes
- Investments with Registered Providers
- Corporate Bonds

The Authority’s short term cash flow investments are made with reference to the Authority’s cash flow, the outlook for the UK Bank Rate, money market rates, credit conditions and will also be restricted to Specified Investments scheduled above.

All investment activity will comply with the accounting requirements of CIPFA’s relevant codes of practice.

The Authority’s exposure to non-specified investments will be restricted to 30% of the overall investment portfolio

Counterparty Criteria

The minimum credit rating of non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term ratings for counterparties is A- (or equivalent).

Any institution will be suspended or removed should any of the creditworthiness indicators identified above give rise to concern. Specifically credit ratings are monitored by the Authority on at least a monthly basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

There will be a maximum investment level per institution of £5m. Arlingclose advises that a banking group investment limit is to be 1.5 times the individual institution limit (i.e. £7.5m). This will be monitored to ensure that any investments stay within the advised limit.

The Authority will also take into account information on corporate developments of, and market sentiment towards, investment counterparties who meet the above criteria. The Authority's treasury advisor continually monitors the credit ratings and market information of suitable counterparties and informs the Authority on a daily basis of any change in status.

The benchmark rate used for comparing investment returns will be the local authority 7-day bid / bor rate. This rate represents the average between the rates bid and offered for 7 day investments in the London Money Market. Given the increasing difficulty in placing investments in 'safe' institutions, the comparison of rates of return against a benchmark is less relevant when set against the ultimate priority of capital preservation.

Investment activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Standards Committee.

Policy on Use of Financial Derivatives

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.

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.

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.

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

APPENDIX B

PRUDENTIAL INDICATORS

1 Background

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

2. Gross Debt and the Capital Financing Requirement

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

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

The Section 151 Officer reports that the Authority has had no difficulty meeting this requirement in 2012/13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

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	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Non-HRA	1.193	1.541	1.779	1.538	1.070
HRA	8.225	7.344	15.865	14.187	7.208
Total	**9.418**	**8.885**	**17.644**	**15.725**	**8.278**

Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	0.000	0.000	0.239	0.304	0.328
Government Grants	3.914	4.366	8.873	8.709	0.000
Major Repairs Allowance	3.570	0.000	0.000	0.000	0.000
Reserves	1.000	2.586	3.048	0.028	0.259
Other Contribution-s106	0.000	0.000	0.000	0.000	0.000
Grants - Other	0.000	0.102	0.000	0.000	0.000
Revenue contributions	0.149	1.078	4.213	5.519	6.994
Total Financing	**8.633**	**8.132**	**16.373**	**14.560**	**7.581**
Supported borrowing	0.000	0.000	0.000	0.000	0.000
Unsupported borrowing	0.785	0.753	1.271	1.165	0.697
Total Funding	**0.785**	**0.753**	**1.271**	**1.165**	**0.697**
Total Financing and Funding	**9.418**	**8.885**	**17.644**	**15.725**	**8.278**

4. Ratio of Financing Costs to Net Revenue Stream

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

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	8.87	10.08	10.22	10.81	10.06
HRA	17.59	15.61	14.68	14.55	14.41
Total (Average)	**14.15**	**13.38**	**12.95**	**13.17**	**12.84**

5. Capital Financing Requirement

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

Capital Financing Requirement	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Non-HRA	11.870	12.815	13.619	14.213	14.328
HRA	80.559	80.120	79.155	78.169	77.159
Total CFR	**92.429**	**92.935**	**92.774**	**92.382**	**91.487**

6. Actual External Debt

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

Actual External Debt as at 31/03/2012	**£m**
Borrowing	89.475
Other Long-term Liabilities	0.141
Total	**89.616**

7. Incremental Impact of Capital Investment Decisions

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 of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2012/13 Approved £**	**2012/13 Revised £**	**2013/14 Estimate £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Impact on Band D Council Tax	0.00	2.33	2.55	2.59	2.71
Increase in Average Weekly Housing Rents	5.35	5.35	3.76	4.32	4.45

8. Authorised Limit and Operational Boundary for External Debt

The Authority 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 Authority and not just those arising from capital spending reflected in the CFR.

The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority'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.

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	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Borrowing	96.725	96.725	97.100	96.555	95.184
Other Long-term Liabilities	1.000	1.000	1.000	1.000	1.000
Total	**97.725**	**97.725**	**98.100**	**97.555**	**96.184**

The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other 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.

The Section 151 Officer has delegated authority, within the total limit 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. Any movement between these separate limits will be reported to the next meeting of the Council.

Operational Boundary for External Debt	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Borrowing	94.725	94.766	95.100	94.555	93.184
Other Long-term Liabilities	0.500	0.500	0.500	0.500	0.500
Total	**95.225**	**95.266**	**95.600**	**95.055**	**93.684**

9. Adoption of the CIPFA Treasury Management Code

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Authority re-affirmed adoption of the CIPFA Treasury Management Code at its meeting on 16 June 2009.

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

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

These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. The Authority calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

The upper limit for variable rate exposure has been set to ensure that the Authority 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 (or Benchmark level)[1] at 31/03/12 %	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50	50

The limits above 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 Authority's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	0	20
12 months and within 24 months	0	20
24 months and within 5 years	0	20
5 years and within 10 years	0	20
10 years and within 20 years	0	50
20 years and within 30 years	0	50
30 years and within 40 years	0	50
40 years and within 50 years	0	50
50 years and above	0	0

12. Credit Risk

The Authority considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk.

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

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

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

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

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	0	5	5	5	5

APPENDIX C

ANNUAL MINIMUM REVENUE POSITION STATEMENT

Background

For many years local authorities were required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP). In practice MRP represents the financing of capital expenditure from the Revenue Account that was initially funded by borrowing.

In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replaced the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations required a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, the Department of Communities and Local Government (CLG) produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.

The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full Council. The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant. MRP is not required to be charged to the Housing Revenue Account. Where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

The move to International Financial Reporting Standards (IFRS) means that Private Finance Initiative (PFI) schemes and Operating Leases may be brought on Balance Sheet. Where this is the case, such items are classed in accounting terms as a form of borrowing. CLG has therefore proposed amending the Capital Finance Regulations to ensure that the impact on the Revenue account is neutral, with MRP for these items matching the principal repayment embedded within the PFI or lease agreement.

MRP Options:

Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below with a summary set out in Table 1:
Option 1 – Regulatory Method.
Option 2 – CFR Method.
Option 3 – Asset Life Method.
Option 4 - Depreciation Method.

MRP Policy for 2013/14:
The Authority will apply Option 1 in respect of supported capital expenditure.
The Authority will apply Option 3 in respect of unsupported capital expenditure.