APPENDIX 1

2014/15 TREASURY MANAGEMENT STRATEGY

1. INTRODUCTION

1.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Authority to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The Authority's strategy has regard to the Department of Communities and Local Government Guidance on Local Government Investments ("the Guidance"), which came into effect from 1 April 2010.

1.4 The strategy also includes the Authority's 2014/15 Minimum Revenue Provision strategy.

1.5 The CIPFA Code of Practice on Treasury Management (revised November 2009) was adopted by this Authority on 1st March 2010. CIPFA have issued revisions to the Prudential Code, Treasury Management Code and Treasury Guidance Notes in mid November 2011 (of which there is little material change in the revisions, mainly in relation to HRA, which is not relevant to this Authority).

1.6 The primary requirements of the Code are as follows:

(i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.

(ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.

(iii) Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy, Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual (stewardship) Report covering activities during the previous year.

(iv) Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(v) Delegation by the Authority of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Authority the delegated body is the Policy Committee.

1.7 Warrington Borough Council act as the Authority's adviser on Treasury Management. The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon Warrington Borough Council's officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor (Capita Asset Services). The strategy covers:

- Prudential and Treasury Indicators in force that will limit the treasury risk and activities of the Authority;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling opportunities;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers;
- the minimum revenue provision strategy;

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.8 It is a statutory requirement under Section 43 of the Local Government Finance Act (1992) for the Authority to produce a balanced budget. In particular, the Act requires the Authority to calculate its budget requirement for each financial year to include the revenue costs which flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level where any increases in charges to revenue (from either increases in interest charges caused by increased borrowing to finance additional capital expenditure, or any increases in running costs from new capital projects) are limited to a level which is affordable within the projected income of the authority for the foreseeable future.

2. TREASURY LIMITS FOR 2014/15

2.1 It is a statutory duty, under Section 3 of the Local Government Act 2003 and supporting regulations, for the Authority 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.

2.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future Council Tax is acceptable. Whilst termed an "Affordable Borrowing Limit", 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 two successive financial years.

2.4 Prudential and Treasury Indicators identified at Appendix 9 in the 2014/15 Draft Budget are relevant for the purposes of setting an integrated Treasury Management Strategy.

2.5 The Authority is also required to indicate if it has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in Local Authorities (the Treasury Management Code). The original Treasury Management Code was adopted in 2004 at a full meeting of the Authority, and the 2009 revised Treasury Management Code was adopted at a full meeting of the Authority on 14th April 2010.

3. CURRENT PORTFOLIO POSITION

3.1 The Authority's treasury portfolio position as at 31st December 2013 comprised of:

Current Portfolio Position	Principal £000	Average Interest Rate %
Fixed Rate Funding		
PWLB	2,214	4.59
Salix	8	0
TOTAL BORROWING	**2,222**	
Investments		
Fixed Rate	(16,500)	0.73
TOTAL INVESTMENTS	**(16,603)**	
NET DEBT	**(10,365)**	

Note: The Authority also has £2,193k in corporate deposit accounts which is not included in the above figures as it is not technically classed as an investment.

BORROWING REQUIREMENT

3.2 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Member's overview and confirm capital expenditure plans.

3.3 The table below sets out the Authority's future borrowing requirement (current and previous years are shown for comparison) based on current commitments and plans.

2012/13 Actual £000	2013/14 Estimate £000	Capital Expenditure	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	TOTAL 3 Years £000
1,889	932	Capital Expenditure	10,100	7,966	2,218	20,284
		Financed By:				
1,421	932	Capital Grants & Reserves	3,873	3,305	0	7,178
0	0	Capital Receipts	110	55	110	275
0	0	Authority Revenue Funding	0	0	0	0
0	0	External Funding	0	0	0	0
468	**0**	**Financing need for year**	**6,117**	**4,606**	**2,108**	**12,831**

4. PROSPECTS FOR INTEREST RATES

4.1 Warrington Borough Council, who advice the Authority on treasury management, has appointed Capita Asset Services to assist and advise on formulating a view on interest rates.

4.2 The Bank Base Rate is forecast to remain unchanged at 0.5%, before starting to rise from quarter 2 of 2016. Capita's central view for bank rate forecasts for financial year ends (March) are as follows:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall in unemployment were to prove to be too optimistic.

Capita Asset Services' interest rate forecast

The following table gives the Capita Asset Services' view:

	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Dec-13	0.50%	2.50%	4.40%	4.40%
Mar-14	0.50%	2.50%	4.40%	4.40%
Jun-14	0.50%	2.60%	4.50%	4.50%
Sep-14	0.50%	2.70%	4.50%	4.50%
Dec-14	0.50%	2.70%	4.60%	4.60%
Mar-15	0.50%	2.80%	4.60%	4.70%
Jun-15	0.50%	2.80%	4.70%	4.80%
Sep-15	0.50%	2.90%	4.80%	4.90%
Dec-15	0.50%	3.00%	4.90%	5.00%
Mar-16	0.50%	3.10%	5.00%	5.10%
Jun-16	0.75%	3.20%	5.10%	5.20%
Sep-16	1.00%	3.30%	5.10%	5.20%
Dec-16	1.00%	3.40%	5.10%	5.20%
Mar-17	1.25%	3.40%	5.10%	5.20%

4.3 These assumptions have been used to determine the treasury management budget projections, included as part of the 2014/15 revenue budget and future year projections.

5. ECONOMIC BACKGROUND

5.1 The Eurozone (EZ) sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the period of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed repercussions may be less in the EZ (beyond Greece itself), and on EU banks. It looks increasingly likely that Slovenia will be the next country to need a bailout.

5.2 Sentiment in financial markets has improved considerably during 2013 as a result of firm EZ commitment to support struggling countries and to keep the EZ intact. However, the foundation to this current "solution" to the EZ debt crisis is still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

5.3 The US economy has managed to return to reasonable growth in Q2 2013 of 2.5% year on year and 2.8% in Q3, in spite of the sharp cuts in federal expenditure from 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this implies for a reasonable growth rate looking forward.

5.4 In the Chinese economy concerns that growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

5.5 In the Japanese economy, the initial confidence generated by "Abenomics" (economic policies advocated by government Prime Minister Shinzoe Abe), and the huge QE operation, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which indicates that Japan may escape from stagnation and deflation and so help to support world growth. The fiscal challenges, though, are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

5.6 In the UK economy up until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013, Q1 (+0.3%), Q2 (+0.7%) and Q3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that:

- *In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds – both at home and abroad – remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

5.7 Growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have improved this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the EZ, the difficulties in this area are likely to continue to dampen UK growth.

5.8 The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey (LFS) / International Labour Organisation (ILO), i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly Q4 2014 in November. The UK unemployment rate currently stands at 2.5 million i.e. 7.6% on the LFS/ ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did not rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

5.9 In relation to Credit conditions, while Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level). FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

5.10 Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October. It is expected to fall back to reach the 2% target level within the MPC's two year time horizon.

5.11 The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

5.12 Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

5.13 There could be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. The political deadlock over the budget and the raising of the debt limit is still to be fully resolved and could have significant effect on gilt yields during 2014.

5.14 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

5.15 The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

5.16 The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and complex, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary, but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be moderate for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

5.17 Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflations is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners – the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the US Federal Budget and raising of the debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the EZ sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and EZ governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in EZ countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other EZ heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the EZ..
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

5.18 The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

- In the longer term, an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

6. BORROWING STRATEGY

6.1 In general, the Authority will borrow for one of two purposes either to finance cash flow in the short-term or to fund capital investment over the longer term. The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

6.2 The Authority has received capital grant from Government of £3,304k in 2013-14 and will receive the same amount in 2014-15. Of this £2,250k per annum is in relation to the delivery of the Emergency Response Programme.

6.3 A key aim of the Treasury Management Strategy is to minimise the cost of the Authority's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period of time. This reduces the impact on the revenue budget of interest payments.

6.5 Currently the weighted average rate of interest on the Authority's loan portfolio is 4.59**%.**

6.6 If necessary, the Authority will borrow in the main from the Public Works Loans Board (PWLB) during the strategy period. PWLB rate forecasts are given in the table below.

	PWLB Borrowing Rates		
	5 year	**25 year**	**50 year**
Dec 13	2.50%	4.40%	4.40%
Mar-14	2.50%	4.40%	4.40%
Jun-14	2.60%	4.50%	4.50%
Sep-14	2.70%	4.50%	4.50%
Dec-14	2.70%	4.60%	4.60%
Mar-15	2.80%	4.60%	4.70%
Jun-15	2.80%	4.70%	4.80%
Sep-15	2.90%	4.80%	4.90%
Dec-15	3.00%	4.90%	5.00%
Mar-16	3.10%	5.00%	5.10%
Jun-16	3.20%	5.10%	5.20%
Sep-16	3.30%	5.10%	5.20%
Dec-16	3.40%	5.10%	5.20%
Mar-17	3.40%	5.10%	5.20%

6.7 These forecasts are based around an expectation that there will normally be variations of +/- 25BP during each quarter around these average forecasts in normal economic and political circumstances. However, greater variations can occur should there be any unexpected shocks to financial and/or political systems.

6.8 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, EZ sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future.
- There will remain a cost to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

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

6.10 Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the possible action

that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6.11 Any decisions will be reported to the Policy Committee at the next available opportunity.

6.12 The general aim of this Treasury Management Strategy is to reduce the difference between the borrowing and investment levels (i.e. net debt) over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the previous year have already reduced substantially the level of credit risk, so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Authority obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments. Detailed in the table is a summary of the net debt of the authority:

2012/13 Actual £000	2013/14 Estimate £000	Comparison of gross and net debt positions at year end	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
3,346	**2,218**	**Actual external debt (gross)**	**2,218**	**2,218**	**3,092**
(12,000)	**(17,000)**	**Investments**	**(15.000)**	**(3,000)**	**0**
(8,654)	**(14,782)**	**Net Debt**	**(12,782)**	**(782)**	**3,092**

7. POLICY ON BORROWING IN ADVANCE OF NEED

7.1 The Authority will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

7.2 In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio, which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them. Any risks will be reported through the mid-year or annual reporting mechanism.

8. DEBT RESCHEDULING

8.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt (which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates) has meant that PWLB to PWLB debt restructuring is now much less attractive than before these events. In particular, consideration would have to be given to the large premiums, which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings may still be achievable through using lenders option borrowers option (LOBO's) loans and other market loans in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

8.2 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

8.3 The reasons for any rescheduling to take place will include:

(a) The generation of cash savings and / or discounted cash flow savings;

(b) Help fulfil the borrowing strategy outlined above;

(c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

8.4 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

8.5 All rescheduling will be reported to the Policy Committee at the earliest meeting following this action.

APPENDIX 2

2014/15 AUTHORITY'S ANNUAL INVESTMENT STRATEGY

9. INTRODUCTION

9.1 The aim of our investment strategy is to:

- Maintain capital security;
- Maintain policy flexibility.

9.2 The Head of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

9.3 The Authority invests surplus cash balances only with certain approved organisations, as security of funds is of primary importance. All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations.

10. INVESTMENT POLICY

10.1 The Authority will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 and revised 2011 CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Authority's investment priorities are: -
(a) The security of capital and;
(b) The liquidity of its investments.

10.2 The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments.

10.3 In accordance with guidance from CLG and CIPFA, and in order to minimise the risk to investments, the Authority has stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these ratings reflect in the eyes of each agency. Using the Capita Asset Services ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

10.4 Furthermore, the Authority's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain and monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour coding which show the varying degrees of suggested creditworthiness.

10.5 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.6 The aim of the strategy is to generate a list of highly creditworthy counterparties, which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

10.7 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices Statement.

11. SPECIFIED INVESTMENTS (MATURITIES UP TO ONE YEAR)

- Bank and Building Society Term Deposits
- Other Local Authority Term Deposits
- Debt Management Agency Deposit Facility
- Money Market Fund
- Government Liquidity Funds
- Collateralised Local Authority Deposit

12. NON-SPECIFIED INVESTMENTS (MATURITIES OVER ONE YEAR)

- Bank and building society term deposit
- Other local authority term deposits
- Money Market Funds
- Collateralised Local Authority Deposit

13 OTHER NON-SPECIFIED INVESTMENTS

- Fixed term deposits with variable rate and variable maturities
- Local Authority Mortgage Scheme (LAMS).

14 CREDITWORTHINESS POLICY

14.1 The Authority uses the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

14.2 This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands that indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service that the Authority would not be able to replicate using in-house resources.

14.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Yellow – 5 years*
- Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.50
- Purple - 2 years
- Blue - 1 year (only applies to nationalised/semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days**
- No Colour - not to be used

**This category has been added for AAA rated Government debt or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Government debt.*

***The green limit was formerly for 3 months but the Financial Conduct Authority set (July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.*

14.4 This Authority will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. This is because Moody's are currently very much more aggressive in allocating low ratings than the other two agencies. This would leave the Authority with few banks on its approved lending list and be unworkable. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue merit to just one agency's ratings.

14.5 The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to just one agency's ratings.

14.6 Typically the minimum credit ratings criteria the Authority use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of a-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but my still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

14.7 All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service:

- If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately;
- In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap (CDS) against the iTraxx (CDS product brand name) benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

14.8 Sole reliance will not be placed on the use of this external service. In addition the Authority will also use market data and information, information on government support for banks and the credit ratings of that government support.

15. COUNTRY LIMITS

15.1 The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide them). The list will be added to, or deducted from by officers should ratings change in accordance with this policy.

16. INVESTMENT STRATEGY

16.1 Prudence will drive the Authority's investment strategy in 2014/15 due to the volatility and uncertainty that exists in the world's financial markets. Lending will only take place to institutions at the higher end of the credit rating spectrum. Due to interest rates being historically low and to maximise liquidity investments will be of a short term nature. In order to minimise risk, the Authority will look to diversify its investment portfolio by investing in other investment vehicles such as money market funds. The driving force of our strategy will be maintaining the security of capital and investment liquidity. The Authority will use a combination of credit ratings, sovereign ratings and guarantees to assess the credit quality of financial institutions before placing investments.

17. INTEREST RATE OUTLOOK

17.1 The Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to rise in quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are as follows:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

17.2 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if the Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

17.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 2.00%

17.4 For 2014/15 the Authority will budget for an investment return of 0.50% on investments placed during the financial year.

18. LIQUIDITY OF INVESTMENTS

18.1 The maximum period of investment of Authority money will be five years.

19. END OF YEAR TREASURY PERFORMANCE REPORT

19.1 At the end of the financial year the Head of Finance will report on treasury activity in the end of year treasury performance report to the Policy Committee and to the Authority.

20. COUNTERPARTY LIMITS

The table below shows the amount of Authority Funds that can be invested with individual counterparties.

	Maximum Limit
1. Specified Investments (limit per counterparty)	
UK Government	Unlimited
Local Authorities	£10.0m
Money Market Funds with a minimum rating AAA	£10.0m
Institutions with a minimum rating of AAA/A1	£10.0m
Institutions with a minimum rating of AA-/A2	£7.5m
Institutions with a minimum rating of A-/A2	£5.0m
Building Societies – assets greater than £5,000 million	£2.5m
Building Societies – assets greater than £1,000 million	£1.75m
Building Societies – assets greater than £250 million	£1.0m
2. Non-specified Investments (limit per counterparty)	
Investments for more than 365 days	£5.0m
Other non-specified investments	£5.0m
3. Other Limits (on day of investment)	
Aggregate value of Non-specified Investments	£10.0m

21. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

21.1 The Authority uses Warrington Borough Council as its external treasury management adviser.

21.2 The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

21.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

22. TREASURY MANAGEMENT SCHEME OF DELEGATION

22.1 The scheme of delegation is in the Authority's Treasury Management Practices statement which will be reported to the Authority on an annual basis.

23. MINIMUM REVENUE PROVISION (MRP) STRATEGY

23.1 The Authority is required to make an annual provision from revenue to contribute towards the repayment of borrowing. This requirement arises under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, which simplifies earlier MRP requirements by placing a duty on the Authority to determine each year an amount of minimum revenue provision, which it considers to be prudent. In order to assist the Authority with this determination, guidance for assessing what would represent a prudent provision has been issued under S.21(1A) of the Local Government Act 2003 (The Guidance). The Authority is required to have regard to the Guidance when considering the amount of their annual "prudent" MRP.

23.2 It is proposed that the MRP for 2014/15 will continue to be charged at the rate of 6.7% of the opening Capital Financing Requirement. It is officers' professional opinion that this approach continues to meet the statutory duty to make prudent revenue provision.

23.3 Based on the current projected capital outturn position for 2013/14, it is expected that this will equate to a charge of approximate £631k in 2014/15.

23.4 The policy will be reviewed on an annual basis. If it is proposed to vary the terms of the original statement during any year, a revised statement should be put to members at that time.

24. CAPITAL PROGRAMME

24.1 The Authority are proposing a capital programme of £13,784k in 2014/15 which contains £8,870k of prudential borrowing. This is largely as a result of the ERP and the Safety Centre.

ANNEXE A

GLOSSARY OF TERMS

Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Department for Communities and Local Government
CPI	Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the RPI, such as unit trust and stockbrokers fees, university accommodation fees and foreign students' university tuition fees.
DCLG	Department of Communities and Local Government

Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
EMU	European Monetary Union
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
EU	European Union
Fed.	Federal Reserve Bank of America – sets the central rates in the USA
Floating Rate Notes	Bonds on which the rate of interest is established periodically with reference to short-term interest rates
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
FSA	Financial Services Authority – body responsible for overseeing financial services.
Fiscal Policy	The Government policy on taxation and welfare payments.
GDP	Gross Domestic Product
GF	General Fund
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Gilt Funds	Pooled fund investing in bonds guaranteed by the UK government.
Government MMF	MMFs that invest solely in government securities, or reverse repurchase agreements backed by Government Securities.
HM Treasury	Her Majesty's Treasury
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
iTraxx	Brand name for the group of credit default swap index products.
LOBO's	Lenders Option Borrowers Option loans
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable

	levels of growth and employment.
MRP	Minimum Revenue Provision
MTFP	Medium Term Financial Plan
Open Ended Investment Companies	A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PFI	Private Finance Initiative
PWLB	Public Works Loan Board
QE	Quantitative Easing
Reverse Gilt Repo	This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.
Retail Price Index (RPI)	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
RPIX	As RPI but excluding mortgage interest rate movements.
RPIY	As RPI but excluding mortgage interest rate movements and changes in prices caused by changes in taxation.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.
SORP	Statement of Recommended Practice
S151	Section 151 Officer
Term Deposit	A deposit held in a financial institution for a fixed term at a fixed rate.
Treasury Bill	Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.
UBS	Union Bank of Switzerland
US	United States
WARoR	Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number. Each institution is assigned a colour corresponding to a suggested duration using Sector's Suggested Credit Methodology.
Model WARoR	Model Weighted Average Rate of Return is the WARoR that the model produces by taking into account the risks inherent in the portfolio.

ANNEXE B

PRUDENTIAL INDICATORS

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits.

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

A Capital Expenditure

The Authority has to make a reasonable estimate of the capital expenditure that it plans to incur in the following three years and after the year-end must record the actual capital expenditure incurred in that year.

The Authority's capital programme informs the requirements of these indicators. The actual capital expenditure that was incurred by the authority in 2012/13, the revised estimate for the current and estimates for the future years are as follows:

2012/13 Actual £000	2013/14 Estimate £000	Capital Expenditure	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
1,889	932	Total Capital Expenditure	10,100	7,911	2,108

B Capital financing cost indicators

One of the indicators of affordability is the estimated ratio of the Authority's general fund capital financing costs to its net revenue stream in percentage terms. This indicator shows the proportion of the revenue budget spent on capital financing costs; if the ratio is increasing rapidly over time then a larger proportion of revenue resources is being taken up by capital financing costs, which could be used for other elements of the authority's budget.

For 2014/15, net revenue streams are based on the MTFP draft general fund (GF). For future years, the GF net revenue stream is projected in the Authority's MTFP.

2012/13 Actual %	2013/14 Estimate %	Ratio of financing costs to net revenue stream	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
1.47	1.62	% of Revenue Budget	1.48	2.40	3.11

C Impact on Council Tax

This indicator shows the impact of capital investment decisions on Council Tax. The indicator shows the marginal increase in Council Tax per Band D property as a result of capital financing costs.

2012/13 Actual £	2013/14 Estimate £	Impact of financing costs on Band D Council Tax	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
0.02	0.01		0.01	0.01	0.03

D Capital Financing Requirement

The Capital Financing Requirement (CFR) indicator is a notional figure which shows the authority's theoretical need to borrow to fund capital expenditure. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.

The estimate of additional capital financing requirement for the next three years is approximately £9,801k, giving a total CFR of some £19,214k.

2012/13 Actual £000	2013/14 Estimate £000	Capital Financing Requirement	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
10,813	**10,089**	Total Capital Financing Requirement	**9,413**	**14,899**	**18,452**
		Movement in CFR represented by			
0	**0**	Net financing need for the year	**6,117**	**451**	**1,998**
724	**676**	Less financing movements	**631**	**998**	**1,236**
724	**676**	**Movement in CFR**	**4,065**	**3,553**	**762**

E Gross Borrowing Requirement

There is a clear linkage between the authority's capital financing requirement indicators and its gross external borrowing. Within the code there is a key indicator of prudence that ensures that, over the medium term, gross borrowing is only for a capital purpose. This can be demonstrated by comparing gross external borrowing shown in the table below to the total CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Gross external borrowing should not exceed this limit except in the short term. The table below shows the estimated carried forward each year.

2012/13 Actual £000	2013/14 Estimate £000	Current Portfolio Position	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
		External Debt			
5859	3,346	Debt at 1 April	2,218	2,214	2,214
(2,513)	(1,126)	Expected change in Debt	(4)	0	878
3,346	2,218)	External Debt at 31 March	2,214	2,214	3,092
0	0	Other long-term liabilities (OLTL)	0	0	0
0	0	Expected change in OLTL	0	0	0
3,346	2,218	Actual Gross Debt at 31 March	2,214	2,214	3,092
10,090	9,413	Capital Financing Requirement	14,900	18,452	19,214
6,744	**7,195**	**Under / (over) borrowing**	**12,686**	**10,472**	**16,122**

F Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The authority has to set an Authorised Limit, which is the statutory maximum borrowing permitted, and an Operational Boundary, which is the normal level of borrowing expected, for external debt.

The Authorised Limits set out below are consistent with the authority's current commitments, existing plans and the proposals set out in this report for the capital expenditure and financing, and with its approved treasury policy statement and practices. They are based on the most likely, prudent, but not worse case scenario, with sufficient headroom over and above this to allow for operational management recognising that during the year it may be necessary to exceed the operational boundary in order to take advantage of interest rate movements or to accommodate unusual cash flow movements.

2012/13 Actual £000	**2013/14 Estimate £000**	**Authorised Limit for External Debt**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
4,214	4,218	Borrowing	4,218	4,218	5,092
0	0	Other Long Term Liabilities	0	0	0
4,214	**4,218**	**Total Authorised Limit**	**4,218**	**4,218**	**5,092**

In agreeing these limits, it should be noted that the Authorised Limit for 2014/15 will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003. This indicator being the maximum limit the Authority may borrow at any point in time in the year. If borrowing above this level were needed a report would go to the Authority for authorisation to increase the limit.

G Operational Boundary for External Debt

The operational boundary is a key management tool for in-year monitoring. Temporary breach of the operational boundary will not in itself be a cause for concern, although a sustained breach might indicate an underlying issue that would need investigation and action.

The operational boundaries below are based on the Authorised Limit, estimating the authority's most likely level of borrowing and leasing each year. It includes long term borrowing to fund capital and short term borrowing to meet day to day variations in cash flow but without the additional headroom.

2012/13 Actual £000	2013/14 Estimate £000	Operational Boundary	2014/15 Estimate £000	2015/16 Estimate £000	016/16 Estimate £000
2,218	2,218	Debt	2,218	2,218	3,092
0	0	Other long term liabilities	0	0	0
2,218	**2,218**	**Total**	**2,218**	**2,218**	**3,092**

H Maturity structure of debt

It is recommended that the Authority sets upper and lower limits for the maturity structure of its debt for the forthcoming year as follows:

Maturity Structure of Council Borrowing	Upper Limit %	Lower Limit %
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	35	0
5 years and 10 years	60	0
10 years and above	100	30

The above percentages are the ranges for the projected borrowing maturing in each year out of the total projected borrowing. The indicator is designed to be a control over the Authority having large concentrations of fixed interest rate debt needing to be replaced at any one time and thus being at risk of having to borrow large amounts when interest rates may be unfavourable.

I Fixed interest rate exposure

The table below shows the Authority's upper limit for fixed interest rate exposure for the next three years. This indicator shows the percentage of borrowing that can be undertaken at fixed interest rates. Up to 100% of borrowing can be at fixed interest rates. This indicator is set at levels to reduce the risk from interest rate movements.

Upper Limit – Fixed Interest Rate Exposure	2014/15 %	2015/16 %	2016/17 %
Fixed Interest Rates	100	100	100

J Variable interest rate exposure

The following indicator shows the percentage of borrowing that can be undertaken at variable interest rates. The purpose of the indicator is to restrict variable rate borrowing in order to reduce the risk from sudden movements in interest rates. The Authority sets its upper limit for borrowing, reflecting variable interest rates less investments that are variable rate investments at 40%.

Upper Limit – Variable Interest Rate Exposure	**2014/15 %**	**2015/16 %**	**2016/17 %**
Variable Interest Rates	40	40	40

Currently 100% of the borrowing is fixed rate.

K Investment periods

It is recommended that the Authority sets a limit on the amount invested for periods longer than one year of £5m in total for 2014/15, with the maximum period for any one loan being three years. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper Limit for Total Principal Sums Invested for over 364 days	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
External Debt	5.000	5.000	5.000