ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO	**THE EXECUTIVE COMMITTEE**
DATE	**10 FEBRUARY 2014**
SUBJECT	**CAPITAL PLAN AND TREASURY MANAGEMENT 2014/15**
PORTFOLIO HOLDER	**COUNCILLOR H E JONES**
LEAD OFFICER	**CLARE J WILLIAMS**
CONTACT OFFICERS	**CLARE WILLIAMS**

Nature and reason for reporting:
Budget Procedure Rules require the Executive to complete its final budget proposals to the County Council.

A – Introduction / Background / Issues

1. Background

1.1 As part of the budget process, the Executive Committee is required to make proposals in relation to a capital plan and budget, a Treasury Management Strategy (incorporating the Annual Investment Strategy and the Minimum Revenue Provision Policy) and a suite of prudential and treasury indicators. Draft documents are attached as annexes and this report presents the key points so that the proposals may be presented to the County Council on 27th February.

B – Considerations

2. Capital Plan and Budget 2014/15 onwards

2.1 In March 2013 the County Council set an interim capital budget and the intention was that a more comprehensive and strategically integrated capital strategy and plan would be developed with the Executive during the year. This process is ongoing with the intention of a significant transformation to the processes and plans to be brought about during the next year.

2.2 The projects in the current capital budget have been reviewed. No significant change is required. The programmes and projects identified as key areas in previous years are developing and the time will be ripe to make decisions in these areas in the context of discussing and adopting new models for service delivery and revised asset plans.

2.3 Core resources announced by WG in the recent settlement total £3.529m, made up of £1.335m capital grant and £2.194m supported borrowing. This is similar to that indicated in the provisional settlement and is £0.083m more than for 2013/14.

2.4 Capital Receipts continue to prove challenging to accurately forecast in terms of value and timing due to the continued, although marginally improved, market conditions. Work is in progress with Local Partnerships to review a range of proposals aligned with the transformation of services, delivery options and associated asset requirements. The outcome of this work will be presented to the Executive for decisions in due course. Due to the uncertainty surrounding the generation of capital receipts at present the capital budget proposals (see Annex A) have been produced on the basis of no capital receipts outside of the ring fenced programmes (smallholdings, schools and the HRA). It is intended that as the year progresses and the financial position reappraised and plans developed, proposals will be developed put forward for consideration as appropriate.

2.5 Capital grants have reduced over recent years with a number of longstanding formula based grants brought to an end. The most significant potential grant sources on the near horizon are the 21st Century Schools Programme, the new European funding programme and the Vibrant and Viable Places (Regeneration) funding scheme. The revised Strategic Outline Programme (SOP) for the 21st Century Schools scheme has recently been submitted to WG and is also subject to consideration by Members. The new European funding programme will provide significant opportunities for additional capital investment and proposals will be put forward as time progresses. It is also possible that the new status of Enterprise Zone and the other activity relating to regeneration will enable access to new funding sources.

A notable grant for 2014/15 which is expected to be fully confirmed is the third tranche of the Highways Local Government Borrowing Initiative (LGBI). The Highways LGBI programme is entering the final of its three years. The funding will enable £1.8m to be invested in the Authority's highways infrastructure over the following year, totalling £5.3m over the three years.

2.6 Annual budgets were identified last year at £3.4m, with the proposal for 2014/15 being to continue at a slightly reduced level. It is considered that the economic regeneration feasibility studies budget should form part of the revenue budget and any proposals submitted for partnership funding will considered during the next year. This will result in the 'annual budget' for 2014/15 standing at £3.35m. It is worth noting that this 'annual budget' includes any commitment budgets approved for 2014/15 as part of the current year budget proposals.

This idea of 'annual budgets' has been used for a number of years; as discussed in section 2.1, the concept of annual budgets is not intended to be continued beyond 2014/15, with a comprehensive and strategic bidding process to be adopted in its place. The budget lines are therefore:-

	2014/15 £000
Schools :refurbishment etc.	1,000
Roads (excluding any formula grant)	200
Other Highways	
Disabled Access	300
Buildings Risk Management	200
Smallholdings	450
	Ring fenced capital receipts
Vehicles	150
Equipment/ICT	150
Feasibility Studies	-
Partnership Funding	-
Private Sector Housing	900
	3,350

2.7 The projected programme for the 2013/14 Housing Revenue Account has been included in the 30 year plan at £5.7m. The programme and funding requirements for 2013/14 will be finalised once this year's expenditure has been completed and the revenue contributions confirmed.

2.8 Unallocated contingencies of £3.6m are projected to be carried forward into next year. As part of the development of the capital budget setting process and plans, and as the financial position develops during the year, the potential level and type use of these contingencies will be reviewed and proposals put forward as appropriate.

3. Treasury Management Strategy

3.1 The draft Treasury Management Strategy for 2014/15 (Annex B) is due to be scrutinised by the Audit Committee prior to this report being presented. The Strategy Statement has been prepared in accordance with professional guidance.

3.2 The key points are:-

- Full use of supported borrowing allocations;
- Unsupported borrowing to cover the 2014/15 Highways Local Government Borrowing Initiative and to support the capital programme subject to rigorous evidence of prudence including affordability;
- Assumed fully externalised borrowing;
- Assumed investments @ £30m p.a. on average;
- There has been an update to the investment credit rating criteria and limits, however, the majority of the principles and criteria have remained unchanged. The list of investment categories and the associated criteria and limits will be subject to ongoing review and development, with approval for any amendments to be sought as appropriate;
- The forecast capital expenditure and associated financing implications have been based on what has been reasonable to estimate at present. As referred to in section 2.1, the capital plans will develop as the year progresses and the strategies updated as appropriate;
- A need to adopt the revised CIPFA Treasury Management Code of Practice 2011 for the coming year.

3.3 Based on current portfolios and these foregoing assumptions and plans, the proposed revenue budget for the Treasury Management function is: -

2013/14		Category	2014/15	
Council Fund £'000	**HRA £'000**		**Council Fund £'000**	**HRA £'000**
4,324	1,415	Interest payable	4,860	1,213
(103)	(32)	(Discount)/Premium – rescheduling	(103)	(32)
3,252	1,117	Minimum Revenue Provision	3,204	1,012
(389)	(3)	Interest Receivable	(216)	(4)
7,184	**2,497**		**7,745**	**2,189**

4. Prudential Indicators

4.1 The prudential indicators are presented as part of the budget process. These form part of the process for ensuring prudence in setting the Council's budget. A small number of Treasury Management indicators are set as limits. Once the figures from the revenue and capital budget proposals are confirmed they will be incorporated into a schedule to present to the County Council.

The key points are:

- Projected additional supported and unsupported borrowing over the next 3 years to finance the proposed plans amounts to £9.4m gross and means a net increase of £8.8m to the borrowing requirement over 3 years;

- Projected additional supported and unsupported borrowing will add £0.7m to the annual cost of borrowing over the 3 years.

C – Implications and Impacts		
1	**Finance / Section 151**	
2	**Legal / Monitoring Officer**	
3	**Human Resources**	
4	**Property Services** (see notes – separate document)	
5	**Information and Communications Technology (ICT)**	
6	**Equality** (see notes – separate document)	
7	**Anti-poverty and Social** (see notes – separate document)	
8	**Communication** (see notes – separate document)	
9	**Consultation** (see notes – separate document)	
10	**Economic**	
11	**Environmental** (see notes – separate document)	
12	**Crime and Disorder** (see notes – separate document)	
13	**Outcome Agreements**	

CH – Summary

D – Recommendation

5. Recommendation

That the Executive:-

5.1 Notes the contents of the report;
5.2 Notes the recommendations of the Audit Committee in relation to the Treasury Management Strategy Statement;
5.3 Endorses the capital plan and budget as its proposal for next year;
5.4 Endorses the contents of, and assumptions and proposals made within, the Treasury Management Strategy Statement (including the Prudential and Treasury Indicators) for 2014/15;
5.5 To pass on any comments and/or recommendations to the County Council.

Finally, the Executive's proposals need to be put to the County Council, complying with statutory requirements and the constitution. Authority is sought to complete this documentation in conjunction with the Finance Portfolio holder.

NAME OF AUTHOR OF REPORT: CLARE J WILLIAMS
JOB TITLE: HEAD OF FUNCTION (RESOURCES)
DATE: 24 JANUARY 2014

Annexes:

A – Draft Capital Budget 2014/15
B - Draft Treasury Management Strategy Statement 2014/15

Background papers

ANECS A/ANNEX A

Cyllideb Cyfalaf 2014-15 / Capital Budget 2014/15

Cynigion Drafft y Pwyllgor Gwaith / Executive's Draft Proposals

Dyraniadau dangosol yw'r eitemau mewn italeg/Items in italics are indicative allocations

	Llithro Slippage 2013/14 £'000	Cyllideb Budget 2014/15 £'000	Ymrwymiadau Commitments 2015/16 £'000	Ymrwymiadau Commitments 2016/17 £'000	
GWASANAETH					**SERVICE**
Addysg					**Education**
Ysgolion – Adnewyddu		**1,000**			Schools - Refurbishment
Arian wrth gefn Ysgolion 21ain Ganrif	850				21st Century Schools Contingency
Dechrau'n Deg Ehangu Rhaglen Gyfalaf		**720**			Flying Start Capital Expansion Programme
Is-gyfanswm		**1,720**	**0**	**0**	**Sub-Total**
Cynllunio					**Planning& Public Protection**
Adfywio Ffisegol (3 Tref)	1,500				Physical Regeneration (3 Towns)
Is-gyfanswm		**0**	**0**	**0**	**Sub-Total**
Rheoli Gwastraff					**Waste Management**
Compownd Storio Cynhwyswyr Gwastraff – Penhesgyn*		**125**			Waste Containers Storage Compound - Penhesgyn*
Is-gyfanswm		**125**	**0**	**0**	**Sub-Total**
Datblygu Economaidd					**Economic Development**
Cyllid Cyfatebol Cynllun Cyfenter	300				Matchfunding Cyfenter Scheme
Grantiau Cronfa Buddsoddi Lleol		**130**			Local Investment Fund Grants
Cynlluniau Estyniad Canolfan Fusnes Môn*		**25**			Anglesey Business Centre Extension Plans*
Isadeiledd Strategol ar Ynys Môn - Safleoedd ac Adeiladau	150	**1,666**			Strategic Infrastructure on Anglesey - Sites and Premises
Is-gyfanswm		**1,821**	**0**	**0**	**Sub-Total**
Priffyrdd a Thrafnidiaeth					**Highways and Transportation**
Ffyrdd		**200**			Carriageways
Meysydd Parcio		**50**			Car Parks
Strwythurau		**180**			Structures
Goleuadau Stryd		**20**			Street Lighting
Lonydd Ystadau a Troedffyrdd		**50**			Estate Roads and Footways
Menter Benthyca Llywodraeth Leol		**1,800**			Local Government Borrowing Initiative
Cerbydau	100	**150**			Vehicles
Is-gyfanswm		**2,450**	**0**	**0**	**Sub-Total**
Eiddo					**Property**
Mynediad i'r Anabl i Adeiladau Cyhoeddus		**200**			Disabled Access to Public Buildings
Rheoli Risg Adeiladau a Chynnal Strwythurol		**450**			Buildings Risk Management & Structural Maintenance
Estyniad i Fynwent Llanddona		**120**			Extension to Llanddona Cemetery
Prosiect Amgylchedd Arfordirol Ynys Môn* Morwrol – Economaidd		**495**	100		Anglesey Coastal Environment Project * Maritime - Economic
Estyniad i Fynwent Llanbedrgoch	110				Llanbedrgoch Cemetery Extension
Mân-ddaliadau (rhaglen wedi ei hamgau)		***250***			*Smallholdings (Ringfenced programme)*
Is-gyfanswm		**1,515**	**100**	**0**	**Sub-Total**
TGCh					**ICT**
Strategaeth TGCh**	480	**150**			ICT Strategy**
Is-gyfanswm		**150**	**0**	**0**	**Sub-Total**
I'w Ddyrannu * **					**To be allocated *** **
Cyllid Cyfatebol/Adfywio	470				Match Funding / Regeneration
Cronfa wrth gefn – Gwelliannau Hamdden	196				Leisure Improvements Reserve
Astudiaethau Dichonolrwydd - Cyffredinol	460				Feasibility Studies - General
Rhaglen Rhesymoli Asedau	2,100				Asset Rationalisation Programme
Arian wrth gefn – Gwario i Arbed		**850**			Spend to Save Contingency
Heb ei ddyrannu	340				Unallocated
Is-gyfanswm		**850**	**0**	**0**	**Sub-Total**
Cyfanswm - Cyffredinol		**8,631**	**100**	**0**	**Total - General**

	Llithro Slippage 2013/14 £'000	Cyllideb Budget 2014/15 £'000	Ymrwymiadau Commitments 2015/16 £'000	Ymrwymiadau Commitments 2016/17 £'000	
Cyllid Cyfalaf Cyffredinol		**2,629**			General Capital Funding
Benthyca di-gefnogaeth		**1,000**			Unsupported Borrowing
Menter Benthyca Llywodraeth Leol					
Benthyca Pwyllog		**1,800**			Local Government Borrowing Initiative Prudential Borrowing
Grantiau Ewrop		**2,025**	100		European Grants
Grantiau Llywodraeth Cymru		**720**			Welsh Government Grants
Derbyniadau Cyfalaf		**250**			Capital Receipts
Refeniw/Cronfeydd wrth Gefn		**207**			Revenue / Reserves
Cyfanswm Adnoddau Cyffredinol		**8,631**	**100**	**0**	**Total General Resources**
Tai					**Housing**
Tai Sector Gyhoeddus :					Public Sector Housing :
Rhaglen Gyfalaf y Gronfa Refeniw Tai		**5,734**	4,800	4,900	Housing Revenue Account Capital Programme
Cynlluniau Tai Sector Preifat:					Private Sector Housing Schemes :
Grantiau Tai Sector Preifat a Cynlluniau Benthyciadau	600	**900**			Private Sector Housing Grants and Loans Schemes
Cynlluniau Tai Fforddiadwy	450				Affordable Housing Schemes
Cyfanswm Tai		**6,634**	**4,800**	**4,900**	**Total Housing**
Adnoddau Tai					**Housing Resources**
Cyllid Cyfalaf Cyffredinol		**900**			General Capital Funding
Lwfans Trwsio Sylweddol		**2,600**	2,600	2,600	Major Repairs Allowance
Derbyniadau Cyfalaf		**30**	78	80	Capital Receipts
Refeniw/Balansau		**3,104**	2,122	2,220	Revenue / Balances
Cyfanswm Adnoddau Tai		**6,634**	**4,800**	**4,900**	**Total Housing Resources**
CYFANSWM CYLLIDEB		**15,265**	**4,900**	**4,900**	**TOTAL BUDGET**

* *Cynllun Gwario i Arbed*
** *Mae'r llithriant o 2012-13 yn cynrychioli'r cyfuno o'r holl gyllidebau TGCh/Offer sydd heb eu defnyddio*
*** *Bydd yr arian wrth gefn heb eu dyrannu yn amodol ar adolygiad ynglyn â fforddiadwyaeth parhaus a defnydd posibl i gyllido cynlluniau cyfalaf y dyfodol, yn amodol ar gymeradwyaeth fel yn briodol.*

* *Spend to save scheme*
** *The slippage from 2012/13 represents the consolidation of all the unused ICT/equipment budgets*
*** *The unallocated contingencies will be subject to review as to ongoing affordability and potential usage to fund future capital plans, subject to approval as appropriate*

ANNEX B

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2014/15

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, meaning that total revenue due during the financial year must be sufficient to meet expenditure, and also that actual cash inflows must be adequate to cover cash outflows. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk approach, ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

A particular point is that a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that:-

- increases in revenue costs resulting from increases in interest charges, incurred to finance additional borrowing to finance capital expenditure; and
- any increases in running costs from new capital projects, must be limited to a level which is affordable within the Council's projected income.

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities. See Appendix 9.

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Indicators and Treasury Strategy - The first and most important report, covers:-

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an Investment Strategy (the parameters on how investments are to be managed);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time); and
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function).

Reporting is also required on the capital plans (including the associated prudential and treasury indicators).

A Mid Year Treasury Management Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision. Rather than this minimum requirement, these reports will be produced quarterly (with quarters one and three being reported only to the Audit Committee).

An Annual Treasury Report - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2014/15

The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services.

The strategy for 2014/15 covers two main areas:-

Capital Issues

- the capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit Committee, and following on from the elections in May 2013, the committee's members received induction training in treasury management, delivered by the appointed treasury management consultants. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions (formerly known as Sector) as its external treasury management advisors.

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

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 Council 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.

1.6 Adoption of the Code

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original, 2001 Code, was adopted on 5 March 2002 by the County Council, a revised Code was adopted on 4 March 2010 and the current, 2011, Code now requires adoption for 2014/15.

2. Capital Considerations

The Council's current capital expenditure projection for 2014/15 is set out below. In respect of the years after 2014/15, the amounts shown are limited to existing commitments associated with ongoing schemes, planned HRA expenditure (on the basis of the current 30 year plan), and also account for the assumption that the annual general capital funding allocation will continue at its 2014/15 level and will be utilised in full. Given the ongoing corporate transformation work and development of the capital planning process no estimates of potential additional future expenditure have been included in the forecasts at this time. It is expected that as the capital planning process develops and is linked into the corporate transformation work, during 2014/15, a sufficient level of clarity will develop in relation to future capital expenditure to enable reliable estimates to be produced for expenditure in addition to the current plans. The prudential indicators may require updating as a result of this as the year progresses.

The overall programmes will be limited to what is affordable, both in terms of actual capital spend and in terms of the revenue implications (see 1.1 above). The prudential indicators are contained in Appendix 11.

£m	2012/13 Actual £m	2013/14 Projected £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
TOTAL	25.4	23.5	23.8	8.3	8.4

3. Borrowing

The capital expenditure plans, set out in a separate document to the Executive Committee, provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's treasury portfolio position at 17 January 2014 comprised:-

		Principal (£m)	Average Rate (%)
Fixed Rate Funding	PWLB	89.6	5.72
Variable Rate Funding	n/a	0.0	n/a
Total Debt		**89.6**	**5.72**

PWLB: Public Works Loans Board

A more detailed breakdown of external debt is shown at Appendix 1.

3.2 Current and Projected Borrowing Requirement and Actual Borrowing

The forecast movements in the Council's capital financing requirement (CFR) are:-

ESTIMATED MOVEMENTS IN THE CAPITAL FINANCING REQUIREMENT AND REPLACEMENT BORROWING 2013/14 TO 2016/17				
	2013/14 Projected £'000	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Movement in the CFR				
New borrowing to support capital expenditure				
Supported Borrowing	*1,344*	*5,890*	*2,194*	*2,194*
Unsupported Borrowing	*7,010*	*4,368*	-	-
Total	**8,354**	**10,258**	**2,194**	**2,194**
Reduce by: Minimum Revenue Provision and set aside capital receipts	(4,419)	(5,192)	(4,771)	(4,730)
Net movement in the CFR	**3,935**	**5,066**	**(2,577)**	**(2,536)**
Potential movements in actual borrowing				
Movement in the CFR (above)	3,935	5,066	(2,577)	(2,536)
Externalisation of pre 2013/14 internal borrowing	10,308	-	**-**	**-**
Replacement Borrowing	6,507	7	8	9
Total potential new borrowing	**20,750**	**5,073**	**(2,569)**	**(2,527)**

The table above incorporates the full impact of the draft Capital Programme for 2014/15 and capital programme for 2013/14. For the following financial years the estimated amounts of new borrowing are limited to supported borrowing allocations which are assumed to continue at the 2014/15 level and to be fully utilised in the year of allocation. The development of the capital plan (as referred to in section 2) will enable more robust forecasts to be performed for expenditure in addition to that forecast at this time and this will enable more comprehensive estimates of future capital expenditure and resulting borrowing requirements.

The likelihood is that not all of this requirement will be met by external borrowing (see 3.4.1 below).

There are a number of treasury indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The treasury indicators can be found in Appendix 11.

The S151 Officer reports that the Council complied with this prudential and treasury indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 Prospects for Interest Rates

The Council's appointed treasury advisor is Capita Asset Services and part of their service is to assist the Council to formulate a view on interest rates. Appendix 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita central view.

Annual Average (%)	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2014	0.50	2.50	4.40	4.40
June 2014	0.50	2.60	4.50	4.50
September 2014	0.50	2.70	4.50	4.50
December 2014	0.50	2.70	4.60	4.60
March 2015	0.50	2.80	4.60	4.70
June 2015	0.50	2.80	4.70	4.80
September 2015	0.50	2.90	4.80	4.90
December 2015	0.50	3.00	4.90	5.00
March 2016	0.50	3.10	5.00	5.10
June 2016	0.75	3.20	5.10	5.20
September 2016	1.00	3.30	5.10	5.20
December 2016	1.00	3.40	5.10	5.20
March 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy 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 ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. 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 of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Council 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 Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate (see 3.4.1 below for a more detailed consideration of internal and external borrowing).

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The S151 Officer 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 world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

In view of the above, the Council's borrowing strategy will be based upon the following sources providing value:-

- Temporary borrowing from the money markets or other local authorities;
- PWLB variable rate loans for up to 10 years;
- Short dated borrowing from non PWLB sources;
- There will be a flexible approach to the mix of internal and external borrowing (see 3.4.1 below);
- Long term fixed rate market loans, where rates are significantly below PWLB rates for the equivalent maturity period, and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

3.4.1 External v. internal borrowing

The comparison of gross and net debt positions as at year end is as follows (this is on the basis of being fully funded):-

NET BORROWING 2012/13 TO 2016/17					
	2012/13 Actual £'000	**2013/14 Projected £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Total Borrowing	96,097	110,343	115,410	112,833	110,297
Total Investments	13,468	20,000	20,000	20,000	20,000
Net Borrowing	**82,629**	**90,343**	**95,410**	**92,833**	**90,297**

Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. Many of the factors which lay behind the previous policy to externalise all borrowing remain valid, e.g.:-

- To protect the council tax payer from losses caused by the method of calculation of Housing Revenue Account Subsidy in the current system;
- To mitigate any liquidity issues caused by the implementation in the future of the long stop provisions to limit unsupported borrowing;
- With a continuing historically abnormally low Bank Rate, there remains a unique opportunity for local authorities to actively manage their strategy of undertaking new external borrowing.

However, it remains the case that there are certain limitations to this approach, as previously noted, e.g.:-

- The policy can cause exposure to credit risk (e.g. risk of the bank defaulting on the debt), so this aspect must be very carefully managed;
- Careful on going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

In favour of internalisation, over the next three years investment rates are expected to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2014/15 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

Potential changes to Housing Subsidy will have a bearing on the balance of the internalisation/externalisation, but further information on this is awaited from WG.

The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has potentially meant that large premiums would be incurred by such action (i.e. that the cost of early exit is higher than the savings achieved); such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Against this background, caution will be adopted with the 2013/14 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs, solely 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 that value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council 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 advantages and disadvantages of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- 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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded on 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 it was 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 might still be achievable through using market loans and in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

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 (i.e. premiums incurred).

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

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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.

All rescheduling will be reported to the Audit Committee, at the earliest practicable meeting following its action.

4. Annual Investment Strategy

4.1 Current Portfolio Position

The Council's treasury portfolio position at 17 January 2014 comprised:-

	Principal (£m)	Average Rate (%)
Deposits – Call to 30 days	18.0	0.45
Deposits – Fixed Term < 1 year	5.0	0.60
Deposits – Fixed Term 1 year +	-	-
Total Deposits	**23.0**	**0.48**

4.2 Investment Policy

The Council's investment policy has regard to the WG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice for Local Authorities and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list (see Appendix 6). 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 reflect in the eyes of each agency. Using the Capita Asset Services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council'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 Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the Capita Asset Services, in producing its colour codings which show the varying degrees of creditworthiness.

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.

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.

Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories.

The Council will also from time to time, make loans, deposits and investments 'for the purpose of delivery of its Service'. These transactions will require the authority of the County Council for amounts over £100k. All transactions will be subject to adequate credit quality and the approval of the Section 151 Officer in consultation with the Portfolio Holder for Finance.

4.3 Creditworthiness policy

The S151 Officer will maintain a counterparty list in compliance with the criteria set out in Appendix 6 and will revise the criteria and submit them to Council for approval as necessary.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution (using the Fitch, Moody's and Standard & Poor's credit rating agencies). For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution, on the basis of credit rating, will fall outside the lending list criteria. Credit rating information is supplied by Capita Assets Services on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria could be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

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

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 from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

- Yellow 5 years *
- Dark pink 5 years
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

All credit ratings will be monitored daily. The Council 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 Council's minimum credit rating criteria, its further use for new investment will cease immediately, unless otherwise authorised; and
- in addition to the use of credit ratings, the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Reference will also be made to market data and market information, information on government support for banks and the credit ratings of that supporting government.

4.4 Country limits

The Council 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). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.5 Investment Strategy

In-house funds*:* Based on cash flow forecasts, the S151 Officer anticipates that the available cash balances in 2014/15 will be up to £30m on average and will range between £15m and £35m. It is expected that core cash balances of up to £15m will available for investments over the medium to long term. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

As at the date of this report the Council holds no investments with a maturity of more than one year.

Investment returns expectations: Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are: -

- **2013/2014** 0.50%
- **2014/2015** 0.50%
- **2015/2016** 0.50%
- **2016/2017** 1.25%

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 Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to one hundred 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%

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and reserve accounts, and short-dated deposits (overnight to one hundred days) in order to benefit from the compounding of interest.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External fund managers

The Council has not appointed external fund managers. The need for this will be kept under review and a report will be made to the Executive before such an appointment is made.

4.8 Policy on the use of external service providers

In order to acquire access to specialist skills and resources, the Council uses Capita Assets Services as its external treasury management advisors. 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.

Final responsibility for treasury management decisions remains with the Council.

4.9 Delegation

The Treasury Management scheme of delegation and the role of the Section 151 Officer are outlined in Appendix 8.

APPENDICES

1. Loan maturity profile
2. MRP Policy Statement
3. Interest rate forecasts
4. Economic background
5. Specified and non-specified investments
6. Counterparty criteria
7. Approved countries for investments
8. Treasury management scheme of delegation and the role of the section 151 officer.
9. Treasury Management Key Principles
10. Treasury Management Policy Statement
11. Prudential and Treasury Indicators

ATODIAD 1/APPENDIX 1

DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2013/14 YMLAEN/ LOANS MATURITY ANALYSIS 2013/14 ONWARDS						
	PWLB Aeddefedu/ PWLB Maturity £'000	**PWLB EIP/ Annuity/ PWLB EIP/ Annuity £'000**	**Benthyciadau Marchnad/ Market Loans £'000**	**PWLB Amrywiol/ PWLB Variable £'000**	**Cyfanswm yn Aeddfedu/ Total Maturing £'000**	**%YN Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %**
2013/14	0	1	0	0	1	0.0
2014/15	0	7	0	0	7	0.0
2015/16	0	8	0	0	8	0.0
2016/17	0	9	0	0	9	0.0
2017/18	5,500	9	0	0	5,509	6.1
2018/19	5,000	10	0	0	5,010	5.6
2019/20	5,000	11	0	0	5,011	5.6
2020/21	4,500	12	0	0	4,512	5.0
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	2.6
2023/24	1,854	16	0	0	1,870	2.1
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	854	22	0	0	876	1.0
2027/28	1,674	24	0	0	1,698	1.9
2028/29	0	26	0	0	26	0.0
2029/30	854	21	0	0	875	1.0
2030/31	0	15	0	0	15	0.0
2031/32	1,281	9	0	0	1,290	1.4
2032/33	0	8	0	0	8	0.0
2033/34	0	0	0	0	0	0.0
2034/35	0	0	0	0	0	0.0
2035/36	0	0	0	0	0	0.0
2037/38	0	0	0	0	0	0.0
2039/40	5,000	0	0	0	5,000	5.6
2040/41	3,500	0	0	0	3,500	3.9
2045/46	0	0	0	0	0	0.0
2047/48	0	0	0	0	0	0.0
2050/51	2,000	0	0	0	2,000	2.2
2052/53	28,238	0	0	0	28,238	31.6
2054/55	3,000	0	0	0	3,000	3.3
2055/56	3,500	0	0	0	3,500	3.9
2056/57	5,000	0	0	0	5,000	5.6
2057/58	8,513	0	0	0	8,513	9.6
2059/60	1,763	0	0	0	1,763	2.0
	89,316	**275**	**0**	**0**	**89,591**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	26.33	11.04	0.00	0.00	26.28	
Cyfartaledd graddfa (%)/ Average rate (%)	5.70	9.41	0.00	0.00	5.72	

APPENDIX 2

Minimum Revenue Provision Policy Statement 2014/15

The Council implemented the Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess the MRP for 2014/15 having regard to the main recommendations contained within the guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003. This relates to Council Fund only, not to HRA.

The major proportion of the MRP for 2014/15 will relate to the more historic debt liability that will continue to be charged at the rate of 4% of Capital Financing Requirement (in accordance with *option 2* of the guidance). Certain expenditure, generally that funded from unsupported borrowing, reflected within the debt liability at 31st March 2007 will be subject to MRP (under *option 3),* in accordance with the asset life method as below.

Although the regulations give discretion to charge MRP on new expenditure either at 4% as previously, or according to estimated asset life, MRP will normally be charged at 4%. However, expenditure financed by unsupported borrowing will be charged in accordance with the asset life method. This distinction will be kept under review.

Under the Asset Life method, MRP is charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be set by the S151 Officer based upon advice received from the Property service. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

The S151 Officer will determine the appropriate and prudent use of the paragraph 13 exception to defer charging MRP until the year following the one in which the asset became operational.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Housing Revenue Account share of the Capital Financing Requirement is generally subject to a 2% MRP charge; however, unsupported borrowing will be charged to HRA revenue over a shorter period according to the approved 30 year business plan.

ATODIAD 3/APPENDIX 3

Rhagolygon Graddfeydd Llog 2014/2017/
Interest Rate Forecasts 2014/2017

Bank Rate	NOW	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-

5yr PWLB Rate	NOW	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	2.63%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	2.63%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.63%	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-

10yr PWLB Rate	NOW	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	3.72%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.72%	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
Capital Economics	3.72%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-

25yr PWLB Rate	NOW	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	4.35%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.35%	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
Capital Economics	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-

50yr PWLB Rate	NOW	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	4.31%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.31%	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
Capital Economics	4.31%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Economic Background

THE UK ECONOMY

Economic growth, 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 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+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".

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy 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 ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Forward guidance, The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / 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 quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). 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 there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

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) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. 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.

Inflation, Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

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

THE GLOBAL ECONOMY

The Eurozone (EZ) The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. 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 bail out 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 Greece 176%, 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. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also 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, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.
Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are 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. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA, The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all 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 portends well for a reasonable growth rate looking forward.

China, There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address 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 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.

Japan, The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, 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 augurs well for the hopes that Japan can escape from the bog of 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, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

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.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

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.

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.

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 tortuous, 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 tepid 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.

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 inflation 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 raising of the US 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 Eurozone 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 Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone 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 Eurozone 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 Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- 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.

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.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Specified and Non-Specified Investments

The Welsh Government 'Guidance on Local Government Investments' (Effective from 1 April 2010) provides the definition of specified and non-specified investments.

Paragraph 5.1 of the 'Guidance' states that an investment is specified if all of the following apply:

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling; and

(b) the investment is not a long-term investment (*); and

(c) the making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 as amended]; and

(d) the investment is made with a body or in an investment scheme of high credit quality (**); or with one of the following public-sector bodies:

- **(i)** the United Kingdom Government
- **(ii)** a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
- **(iii)** a parish or community council.

The 'Guidance' also states that any investment not meeting the definition of paragraph 5.1 is classified as a non-specified investment.

During 2014/15 the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will therefore be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance balances will be minimised as far as is possible

The table in Appendix 6 set out the investment criteria and limits for the categories of investments intended for use during 2014/15 and therefore form the basis for the approved lending list.

Any proposed revisions or amendments during the year to the categories of specified and non-specified investments to be used and / or to the associated credit rating criteria / investment limits will be subject to prior approval by the County Council.

***** *Section 2.4 of the 'Guidance' defines a long term investment as ''any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.''*

****** *For the purposes of high credit quality the 'Guidance' states that ''for the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 (***) is relevant).'*

*** *Paragraph 6.1 of the 'Guidance' recommends that ''the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular:*

- ***(a)*** *to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;*
- ***(b)*** *where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and*
- ***(c)*** *what other sources of information on credit risk are used, additional to or instead of credit ratings.''*

The table in Appendix 6 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 4.3 of this strategy sets out the Council's creditworthiness approach.

Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Banks and Building Societies (not nationalised or part nationalised)	**F1+**	**P-1**	**A-1+**	**AAA**	**Aaa**	**AAA**	**£10m**	**5 years**
	F1+	**P-1**	**A-1+**	**AA**	**Aa2**	**AA**	**£10m**	**3 years**
	F1+	**P-1**	**A-1+**	**AA-**	**Aa3**	**AA-**	**£10m**	**364 days**
	F1	**P-1**	**A-1**	**A**	**A2**	**A**	**£7.5m**	**6 months**
Nationalised / Part Nationalised UK Banks	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
UK Central Government (irrespective of credit rating)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**No maximum**	**No maximum**
UK Local Authorities**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£5m**	**364 days**

* *as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*

****** *as defined in the Local Government Act 2003*

Notes and Clarifications

(1) Cash Limit

(i) The cash limits apply both to the individual counterparty and to the overall group to which it belongs (e.g. for the banks within the Lloyds Banking Group plc (being Bank of Scotland plc and Lloyds Bank plc), the investment limit applies to those banks individually and the banking group as a whole);

(ii) The overall cash limit for deposits over 364 days is £15m.

(2) Time Limit

(i) This up to and including the period indicated.

(3) Foreign Countries

(i) Investments in foreign countries will be limited to those that hold a (Fitch) AA- or equivalent (from the agencies referred to in section 4.3 of this strategy) sovereign credit rating (based upon the lowest common denominator), and to a maximum of £10 million per foreign country.

(ii) Investments in countries whose lowest sovereign rating is not AA- or above will not be permitted. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

(iii) Subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) will be classed as a UK bank due to its substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

(iv) Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

4. Credit Rating Downgrade

Should a credit rating downgrade place a counterparty below the minimum credit rating criteria for investment, the counterparty will cease to be used as soon as practicable.

If the S151 Officer wishes to continue investing with that counterparty approval will be sought from the Chair of the Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

APPENDIX 7

Approved countries for investments [correct as at 29 January 2014]

Based upon lowest available rating

AAA
- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- Qatar

AA-
- Belgium
- Saudi Arabia

Treasury management scheme of delegation

(i) County Council

- budget approval;
- approval of the annual Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy, annual Treasury Management Policy Statement and amendments thereto;
- approval of amendments to the Council's adopted clauses;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities; and
- acting on recommendations received from the Audit Committee and/or Executive Committee.

(ii) Executive Committee

- budget consideration;
- approval of the annual Treasury Management Practices and amendments thereto;
- approval of the division of responsibilities;
- approval of the selection of external service providers and agreeing terms of appointment;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities and making recommendations to the County Council as appropriate;
- acting on recommendations received from the Audit Committee.

(iii) Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Cod of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-
  - scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  - scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  - receiving and scrutinising any other proposals relating to the treasury management which require a decision by the Executive or County Council; and
  - receiving and scrutinising monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The treasury management role of the section 151 officer

The S151 (responsible) officer's role includes:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.
- Responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMP's.

The CIPFA Treasury Management in the Public Services: Code of Practice

The key principles of CIPFA's ***Treasury Management in the Public Services: Code of Practice (2011 Edition)***, as described in Section 4 of that Code are as follows:-

Key Principle 1:
Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2:
Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3:
They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:

"In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function."

"Even though it dates back to 1991, CIPFA considers that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI closure is still pertinent, wherein it was stated that:"

"In balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns."

"Indeed this view was supported by the Communities and Local Government Select Committee report into local authority investments in 2009."

"It is CIPFA's view that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money."

Accordingly the Authority will adopt, as part of the standing orders, the following four clauses;

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

- suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The County Council, Executive Committee and the Audit Committee will receive reports on the Authority's treasury management policies, practices and activities, including; an annual strategy and plan in advance of the year, quarterly reports (including a mid-year review report) and an annual report after its close, in the form prescribed in the TMPs. .

3. The County Council/Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices in accordance with the Treasury Management Scheme of Delegation. The S151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority nominates Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

Treasury Management Policy Statement

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

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

PRUDENTIAL & TREASURY INDICATORS						Appendix 11
No.	**Indicator**					
Affordability		**2012/13 out-turn**	**2013/14 estimate**	**2014/15 proposal**	**2015/16 proposal**	**2016/17 proposal**
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	5.99%	5.45%	5.88%	6.34%	6.25%
	Housing Revenue Account	16.19%	18.55%	17.13%	15.75%	15.06%
	Total	6.96%	6.63%	6.95%	7.29%	7.15%
3	Estimates of incremental impact of capital investment decisions on the			£2.95	£12.99	£18.13
	for the Band D Council Tax					
4	Estimates of incremental impact of capital investment decisions on			£15.70	£10.82	£11.30
	on average weekly rents					
Prudence						
5	Gross debt and the Capital Financing Requirement (CFR)	□	□	□	□	□
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?					
Capital Expenditure		**£000**	**£000**	**£000**	**£000**	**£000**
6,7	Estimates of [or actual] capital expenditure					
	Council Fund	16,677	20,548	18,100	3,500	3,500
	Housing Revenue Account	8,751	3,000	5,700	4,800	4,900
	Total	25,428	23,548	23,800	8,300	8,400
8,9	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	81,347	86,299	92,400	90,800	89,300
	Housing Revenue Account	25,061	24,044	23,000	22,000	21,000
	Total	106,408	110,343	115,400	112,800	110,300
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
10	Authorised Limit : Borrowing	123,000	122,000	125,000	123,000	120,000
	: Other long term liabilities	2,000	2,000	2,000	2,000	2,000
	: Total	125,000	124,000	127,000	125,000	122,000
11	Operational Boundary : Borrowing	118,000	117,000	120,000	117,000	115,000
	: Other long term liabilities	2,000	2,000	2,000	2,000	2,000
	: Total	120,000	119,000	122,000	119,000	117,000
12	Actual External Debt	96,097				

PRUDENTIAL & TREASURY INDICATORS						Appendix 11
No.	**Indicator**					
Treasury Management		**2012/13 out-turn**	**2013/14 estimate**	**2014/15 proposal**	**2015/16 proposal**	**2016/17 proposal**
13	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
14	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
15	The upper limit on fixed rate exposures:	105,000	105,000	125,000	123,000	120,000
	(net principal outstanding)					
16	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
17	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2014/15 upper limit		**2014/15 lower limit**	
18	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	