PolicyAUDIT COMMITTEE

REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

20 MARCH 2015

MATTERS FOR MONITORING
WARDS AFFECTED: ALL

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

Members of Audit Committee:

This report has previously been forwarded and approved by Council at its 2015-16 Budget Setting meeting of 4 February 2015 and is now issued to the Audit Committee for scrutiny in line with the Scheme of Delegation (please see paragraph 4.2)

1. Purpose of Report

1.1 This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2015/16.

1.2 Treasury Management is defined as:

"The management of the local 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. Introduction

2.1 All local authorities are required under the Local Government Act 2003 and Supporting Regulations to ensure that they prepare a Treasury Management Strategy, an Annual Investment Strategy and have a Minimum Revenue Provision (MRP) Policy in place for each financial year. The Authority must also have regard to the CIFPA Prudential Code and the CIPFA Treasury Management Code of Practice 2009 (as updated for 2011) to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

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

3. Reporting Requirements

3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals details of which are outlined below.

3.2 Prudential and Treasury Indicators and Treasury Strategy (this report)

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

3.3 This report also updates some of the Council's Treasury Management Practices Statements which govern how the Council undertakes its Treasury Management Operations.

3.4 A Mid Year Treasury Management Report (prepared after 1st October)

This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

3.5 An Annual Treasury Report

This provides details of the actual performance for the previous financial year and provides a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report must be considered by Members by 30th September of the following financial year.

4. Compliance with the Revised Code

4.1 The Council has adopted the following four clauses in order to comply with the requirements of the Revised Code:

1) The Council will create and maintain for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable treasury management practices (TMPs), setting out the manner in which it 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 this Council. Such amendments will not result in any material deviation from the Code's key principles.

2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual Treasury Management Strategy Statement for the year ahead, a mid-year Review Report and an Annual Report covering activities during the previous financial year, in the form prescribed in its TMPs (see Scheme of Delegation on next page for further information).

3) The Council delegates responsibility for the implementation of treasury management policies to Cabinet, regular monitoring of its treasury management policies and practices to Policy and Resources Scrutiny and Cabinet Board/Audit Committee and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services (S151), who will act in accordance with the Council's policy statement and TMPs.

4) This Council nominates the Policy and Resources Scrutiny and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code. The aim of these reporting arrangements will ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

4.2 Scheme of Delegation

Area of Responsibility	**Council/ Committee**	**Frequency**
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Policy and Resources Cabinet Board	Annually by 30th September after the end of the year
Treasury Management Monitoring and Performance Reports	Policy and Resources Cabinet Board and Scrutiny and Audit Committee	6 Weekly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Annually
Scrutiny of Treasury Management Strategy	Policy and Resources Scrutiny and Audit Committee	Annually

5. <u>Treasury Management Strategy for 2015/16</u>

5.1 The strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the Council’s treasury officers’ views on interest rates, supplemented with leading market forecasts provided by the Council’s treasury advisor, Capita Asset Services.

5.2 The strategy covers:

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

6. Balanced Budget Requirement

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

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

7. Treasury Limits for 2015/16 to 2017/18

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

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

7.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 1 of this report.

8. Current Portfolio Position

8.1 The Council’s treasury portfolio position at 31st March 2014 comprised:

Table 1		**Principal**		**Ave Rate**
		£m	**£m**	**%**
Fixed rate funding	PWLB	109.4		5.35
	Market	62.7		3.93
		172.1		
Variable rate funding	PWLB			
	Market			
Other long term liabilities				
Gross Debt			**172.1**	**4.89**
Total investments			**59.4**	**0.92**
Net Debt			**112.7**	

9. Borrowing Requirement

9.1 The borrowing requirement reflects the Council’s underlying requirement to fund capital expenditure and service loan debt. The requirement will be financed from external sources or internally through cash reserves or a combination of both. The Council’s borrowing requirement is as follows:

Table 2	**2013/14 Actual £’000**	**2014/15 Revised Estimate £’000**	**2015/16 Estimate £’000**	**2016/17 Estimate £’000**	**2017/18 Estimate £’000**
Borrowing requirement	12,449	17,434	19,882	12,375	2,910

10. Prudential and Treasury Indicators for 2015/16 – 2017/18

10.1 Prudential and Treasury Indicators (as set out in Appendix 1 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

10.2 Council adopted the original 2001 Code on 21st March 2002 and the Revised Code was adopted by Council on 3rd March 2010 and updated at the Annual Budget setting meeting. Details of this code can be found at Appendix 2 of this report.

11. Prospects for Interest Rates

11.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Quarter Ending	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

12. Borrowing Strategy

12.1 The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2015/16.

12.2 The following types of loan arrangement will be considered (in no particular order):

- Temporary borrowing from the money markets or other local authorities.
- Short dated borrowing from the market or PWLB.
- Long term fixed rate market or PWLB loans.

12.3 External –v- Internal Borrowing

Table 3: Comparison of gross and net debt positions at year end	**2013/14 Actual £'000**	**2014/15 Revised Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
External debt (gross)	172,084	196,222	216,640	224,470	226,823
Cash balances	(59,477)	(60,000)	(40,000)	(40,000)	(40,000)
Net Debt	**112,607**	**136,222**	**176,640**	**184,470**	**186,823**

- The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns.

- The next financial year is expected to continue to be one with an abnormally low Bank Rate with a base rate rise not forecast until December 2015. This provides a continuation of the current window of opportunity for local authorities to review their strategy of undertaking new external borrowing.

- The Council will continue to examine 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, which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and 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.

- Members should note that the Council has taken new borrowing of £20m from the PWLB together with drawing down £2.574m from the Regional Investment Fund for Wales during the current year. The latter provides a £13m loan facility with some £7.2m available for drawdown by the end of October 2015.

13. Proposed Strategy

13.1 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. The extent of this underborrowed position is outlined in the table below:

	Actual 2013/14	**Estimate 2014/15**
Capital Financing Requirement (borrowing need)	219,942	234,052
External Debt	172,084	196,222
Under borrowing	47,858	37,830

13.2 It is not anticipated that the Council can continue to meet its borrowing requirement from internal balances. It is proposed that Council Officers monitor the cost of external borrowing and if considered necessary externalise the 2015/16 borrowing requirement during the financial year if considered advantageous to do so.

14. Policy on Borrowing in Advance of Need

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

14.2 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 merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on 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.
- Consider the impact on resources arising from any grant conditions.

15. Debt Rescheduling

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

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

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

15.3 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.

15.4 No rescheduling is anticipated in 2015/16. If rescheduling does take place it will be reported to the Policy and Resources Cabinet Board, at the earliest meeting following its action.

16. Annual Investment Strategy

16.1 Investment Policy

16.1.1 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 and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

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

16.1.3 Further, 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.

16.1.4 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.

16.1.5 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.

16.1.6 The intention of the strategy is to provide security of investment and minimisation of risk.

16.1.7 Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices Schedules.

17. Creditworthiness Policy

17.1 The Council utilises 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
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

17.2 All credit ratings are monitored on a daily basis**.** 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 criteria, its further use as a new investment will be withdrawn immediately.

17.3 In addition the Council uses market information and data, information on government support for banks and the credit ratings of that government support.

17.4 In accordance with the Code, the Director of Finance and Corporate Services has produced its Treasury Management Practices (TMP’s). This part TMP1 covering investment counterparty policy requires approval each year.

18. Country Limits

18.1 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 3. This list will be added to or deducted from by officers should ratings change in accordance with this policy. In addition the Council will also seek to obtain sovereign guarantees wherever possible.

19. Investment Strategy

19.1 **In-house funds**: The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £60m reducing to c£40m over the medium term. The remaining cash balances are mainly cash flow derived and available for short term investment only.

19.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

19.3 The Council currently has £10m invested for periods in excess of 12 months (See table).

Counterparty	Value £'000	Start Date	Period	Rate %
Eastbourne Borough Council	4,000	19/12/13	4.5 Years	2.2
Peterborough City Council	2,000	04/12/13	5 Years	2.1
Peterborough City Council	2,000	06/12/13	5 Years	2.1
Peterborough City Council	2,000	18/12/13	5 Years	2.1

19.4 The decision was taken to invest for longer than 1 year to achieve a higher return on investments, at a time when short term interest rates are at an all time low. The £10m is a relatively small proportion of the core balances available for investments, invested with risk free counterparties and has significantly increased the amount of interest received.

19.5 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from December 2015. Bank rate forecasts for financial year ends (March) are:

2014/15	0.50%
2015/16	0.75%
2016/17	1.25%
2017/18	2.00%

19.6 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.

19.7 The Council's budgeted investment earnings rates for return on investments each financial year for the next three years has been set at 1% per annum.

20. Icelandic Bank Investments

20.1 Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks.

Bank	Original Investment	Amount of Principal Repaid	Current Outstanding Investment
	£'000	**£'000**	**£'000**
Heritable	9,000	8,597	403
KSF	3,000	2,546	454
	12,000	**11,143**	**857**

20.2 Some of the investments matured by the old Glitnir bank have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new banks are held in Escrow Accounts in the name of the local authority and generating interest in excess of 4%. £387k is held in Escrow.

21 End of Year Investment Report

21.1 Members will receive a report on its 2014/15 investment activity as part of the Annual Treasury Report by 30th September 2015 and its 2015/16 activity by 30th September 2016.

22. Policy on the Use of External Service Providers

22.1 The Council uses Capita Asset Services as its external treasury management advisers.

22.2 The Council 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.

22.3 However it is recognised that responsibility for treasury management decisions remains with the Council.

23. Role of the Section 151 Officer

23.1 The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- recommend 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
- recommend the appointment of external service providers.

24. Minimum Revenue Provision

24.1 Introduction

24.1.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.

24.1.2 The council is required to approve its MRP policy for the forthcoming financial year ensuring that "prudent provision" is made. The Welsh Government has issued guidance on MRP policy to which the council must have regard.

25. Minimum Revenue Provision Policy Statement 2015/16

25.1 The major proportion of the MRP for 2015/16 will relate to the historic debt liability that will continue to be charged on 4% of the opening capital financing requirement each year.

25.2 Certain expenditure funded via Prudential Borrowing will be subject to MRP on the basis of asset life and using the equal annual instalment or annuity methods as appropriate. 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.

25.3 Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software 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.

25.4 Where 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, as determined by the Director of Finance.

25.5 The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

26. Appendices

Appendix 1 - Prudential and Treasury Indicators
Appendix 2 - Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011
Appendix 3 - Investment Criteria

27. Recommendations

27.1 It is recommended that Cabinet commend to Council the approval of the Treasury Management Strategy, Annual Investment, Minimum Revenue Provision and Prudential Indicators as set out in this report.

28. Reasons for Proposed Decision

28.1 To comply with the requirements of the CIPFA Treasury Management Code of Practice.

List of Background Papers
CIPFA – Treasury Management in the Public Sector Code of Practice
Treasury Management Working Papers

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COMPLIANCE STATEMENT

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

(a) **Implementation of Decision**

The decisions are proposed for implementation immediately after consultation with the Cabinet Scrutiny Committee and determination by Council.

(b) **Sustainability Appraisal**

Community Plan Impacts:

Economic Prosperity	Positive
Education and Lifelong Learning	Positive
Better Health and Well Being	Positive
Environment and Transport	Positive
Crime and Disorder	Positive

Other Impacts:

Welsh Language	Neutral
Sustainable Development	Positive
Equalities	Neutral
Social Inclusion	Neutral

(c) **Consultation**

This item has been included in the Forward Work Programme.

Prudential and Treasury Indicators

A4.1 Estimates of Capital Expenditure

‘The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. The estimates below are based on the latest approved budgets which will be revised when changes to the capital programme are known.

	2013/14 Actual £’000	2014/15 Revised Estimate £’000	2015/16 Estimate £’000	2016/17 Estimate £’000	2017/18 Estimate £’000
Capital Expenditure	53,718	62,230	66,821	34,258	18,569

The Authority expects to supplement its Capital Expenditure Programme in 2015/16 and beyond through additional external grant funding of projects. These figures will be updated in future years.

A4.2 Estimates of Capital Financing Requirement (CFR)

The term Capital Financing Requirement represents the projected total amount of borrowing needed to fund Capital Expenditure. The sums involved are shown below:

	2013/14 Actual £’000	2014/15 Revised Estimate £’000	2015/16 Estimate £’000	2016/17 Estimate £’000	2017/18 Estimate £’000
CFR	219,942	234,052	260,101	263,940	258,263

A4.3 Affordability Indicators

These indicators consider the estimated impact of capital financing costs on the net budget and taxpayers of the Authority.

Prudential and Treasury Indicators

	2013/14 Actual £'000	2014/15 Revised Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Estimated ratio of financing cost to net revenue stream:					
- for General Fund	5.87%	6.77%	7.20%	7.23%	7.54%
Estimate of incremental impact of new capital investment decisions on:					
- Council Tax	3.83	18.39	22.84	11.66	27.70

The following Treasury Management Indicators are required:-

A5.1 Operational Boundary & Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years an operational boundary & authorised limit for its total external debt. The operational boundary should be based on the Authority's estimate of most likely i.e. prudent, but not worst case scenario.

	2014/15 Revised Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Operational Boundary	236,222	261,640	269,470	271,823
Authorised Limit	256,222	281,640	289,470	291,823

Prudential and Treasury Indicators

A5.2 The following limits to be established to administer interest rate exposure for the next 3 years.

	2014/15 Revised Estimate £'000	2015/16 to 2017/18 Estimate £'000
Upper Limit on Fixed Interest Rate Exposure	256,222	291,823
Lower Limit on Fixed Interest Rate Exposure	0	0
Upper Limit on Variable Interest Rate Exposure	128,111	145,912
Lower Limit on Variable Interest rate Exposure	0	0

The above limits will be measured upon the gross principal invested method. This method takes account of total borrowing outstanding.

Upper Limit for total principal sums invested over 364 days	2013/14 Actual £'000	2014/15 Revised Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
	£25m	£25m	£25m	£25m	£25m

A5.3 The Borrowing Maturity structure will be:

Maturity Structure of Fixed Rate Borrowing	2015/16 Estimate %	Upper Limit %	Lower Limit %
Under 12 months	1	15	0
12 months to 2 years	1	15	0
2 to 5 years	8	40	0
5 to 10 years	11	60	0
10 years +	79	100	15

The Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011

Neath Port Talbot County Borough Council has formally adopted the revised Code, the main proposals of which are:-

a) All councils must formally adopt the revised Code which must be approved by Full Council.
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
i) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named Committee.
j) Treasury management performance and policy stetting should be subjected to scrutiny prior to approval.
k) Members should be provided with access to relevant training.
l) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
m) Responsibility for these activities must be clearly defined within the organisation.

Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**. In order to limit the counterparty risk exposure, the Council adopts stringent credit criteria, maximum investment periods and amounts for the various categories of counterparty, as reflected below.

	Minimum 'High' Credit Criteria	**Funds Managed**	**Max Amount**	**Max Duration**
Fixed term deposits with fixed rate and fixed maturity:				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	1 year
Term deposits – local authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1 with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+ with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£15m	1 year
Tern deposits – Barclays Bank Plc	Fitch short-term rating F1 with a support rating of 1 and a short term stable outlook	In-house	£15m	6 months
Term deposits – UK banks/Building Societies	Fitch short-term rating F1 with a support rating of 1 and a short term stable outlook	In-house	£10m	6 months
Principality Building Society	Fitch short-term rating F2	In-house	£3m	6 months
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months
Callable deposits -	Fitch short-term rating F1 or F1+	In-house	As above with the addition of a £3m limit for the Council's bankers Santander	

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.

2. Supranational Bonds of less than 1 year duration – there are two categories:

   (a) multilateral development bank bonds such as European Investment Bank Bonds
   (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.
3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

   Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

Non-Specified Investments:

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

Maturities in excess of 1 year

	Minimum Credit Criteria	**Funds Managed**	**Max. Investment**	**Max. Maturity Period**
Fixed term deposits with fixed rate and fixed maturity				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
Fixed term deposits with variable rate and variable maturities				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

Other

The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible to a maximum of £3m and maximum investment period of 3 months.

The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Government Support

The original list of banks covered when the support package was initially announced was: -

- Part Nationalised Banks:
    - Lloyds Group
    - RBS
- Others:
    - Barclays
    - HSBC
    - Nationwide Building Society
    - Standard Chartered

Appendix 3

Approved Countries for Investments

At present the Council has the ability to invest in the countries as set out below; the Council will take account of all information if making investments in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher. However should the UK sovereignty rating reduce the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on lowest available rating:

AAA

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

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.