BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	**Report Number: N102R**
To: Babergh Audit Committee	**Date of meeting: 23 January 2014**

TREASURY MANAGEMENT STRATEGY 2014/15

1. Purpose of Report

1.1 This report presents the proposed Treasury Management Strategy Statement (which includes the Annual Investment Strategy for managing surplus funds and borrowing strategy). These are in accordance with the CIPFA Treasury Management Code. The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented to Executive Committee and Council in February 2014.

1.2 The Code of Practice recommends that the strategy is subject to scrutiny before it is presented to Council.

2. Recommendations to Strategy Committee and Council

2.1 That the key factors and information relating to and affecting treasury management activities set out in Appendix A and B be noted.

2.2 That the following are approved:

(a) The Treasury Management Policy Statement set out in Appendix C

(b) The Draft Treasury Management Strategy for 2014/15, incorporating the proposed changes referred to in sections 8.16 and 8.17 of the report and including the Annual Investment Strategy as set out in Appendix D

(c) The Prudential Indicators and MRP Statement set out in Appendices F and G

The above recommendations are to be made to Strategy Committee in February 2014, which will then propose them to Council.

3. Financial Implications

3.1 The revenue cost of borrowing in 2014/15 and subsequent years in relation to the capital programme will be minimised by borrowing on the most beneficial basis at the most appropriate time of the year, based on advice from our treasury advisers, Arlingclose. The General Fund revenue budget for 2014/15 will include provision for interest payments from borrowing and the statutory Minimum Revenue Provision (MRP) to ensure that some of the principal is repaid.

4. Risk Management

4.1 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment and/or liquidity problems	Unlikely	Bad	Strict lending criteria for highly credit rated institutions.
Poor return on investments	Probable	Noticeable	Focus is on security and liquidity. Careful cash flow management and budget monitoring in accordance with the strategy, is undertaken.
Higher than expected borrowing costs – interest rate increases and/or lower capital receipts than forecast	Depends on economic and market conditions	Noticeable	Benchmark is to borrow from the Public Works Loan Board (PWLB) whose rates are very low and can be on a fixed or variable basis. Continue to use internal surplus funds temporarily. Capital receipts monitored.

5. Consultations

5.1 Joint Quarterly meetings have taken place with our treasury advisers, Arlingclose, who provide regular and important updates on treasury management issues as they arise.

6. Equality Analysis

6.1 An Equality Impact Assessment (EqIA) has not been completed because this is a technical report that does not have any impact on the equality groups.

7. Shared Service / Partnership Implications

7.1 This report relates solely to Babergh's Strategy, however, the report and format of the strategy and investment criteria and related documents have been aligned with Mid Suffolk where appropriate.

8. Key Information

Background

8.1 Treasury Management is an important part of the overall financial management of the Council's affairs.

8.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential indicators on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS).

8.3 The CIPFA Treasury Management and Prudential Codes have been adopted by the Council. There is also a Treasury Management Policy Statement, which underpins the TMSS.

8.4 The Council borrowed substantial sums of money in 2011/12 in relation to the new HRA self-financing arrangements. As indicated in Table 1, Appendix D the Council currently has a maximum borrowing requirement of around £7.1m and will be required to borrow up to £15.0m by 2015/16 to fund the indicative capital programme.

8.5 It has potentially large exposures, therefore, to financial risks. The successful identification, monitoring and control of risk are central to the treasury management strategy.

8.6 In addition, treasury activities need to comply with relevant statutes, guidance and accounting standards.

Borrowing and Investments

8.7 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of the Council's Treasury Management activities.

8.8 Councils are able to borrow funds up to their CFR to finance capital expenditure. The Council is likely to only borrow in advance of need if it is felt the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweigh the current cost and risks with investing the proceeds until the borrowing is actually required.

8.9 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years.

8.10 Babergh's current level of debt and investments is set out in Appendix A.

The 2014/15 Strategy

8.11 The Prudential Indicators (to be presented with the Budget and Capital programme to Strategy Committee in February 2014) illustrate the affordability and impact of capital expenditure decisions and set out the Council's overall capital and treasury framework. Effective management and decisions on funding ensure the Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

8.12 Key documents relating to treasury management operations in terms of the annual investment and borrowing strategy proposed for 2014/15 are set out in the supporting appendices. Factors affecting the strategy are detailed in the Economic outlook (Appendix B), the Policy Statement (Appendix C) and the proposed strategy for the year (Appendix D).

8.13 The proposed investment strategy for 2014/15 continues to focus primarily on the effective management and control of risk, giving priority to security and liquidity when investing funds. Investment returns remain an important but secondary consideration.

8.14 The minimum investment criteria for UK counterparties in the 2014/15 Strategy remains at A-. The maximum investment limit per institution remains at £2m for all specified investments with the exception of Leeds Building Society where the maximum investment limit is £1m, and the Government's Debt Management Agency deposit Facility (DMADF), where there is no limit on the amount invested.

8.15 A list of the banks and building societies that it is proposed the Council will be able to lend to (based on information on credit risk and credit ratings as at the end of December 2013) is provided in Appendix E. This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated. A member view is required on whether Santander UK plc should continue to be excluded from the Council's lending list despite meeting our credit rating criteria.

8.16 The Council may also consider investing in Building Societies due to the 'building societies regulatory framework and insolvency regime', where in the unlikely event of a building society liquidation the Councils deposits would be paid out in preference to retail depositors. Any investment in building societies will only be undertaken after taking advice from Arlingclose.

8.17 The Authority may also invest cash with other organisations, for example by making loans to small businesses - this would be as part of something that is known as a 'Funding Circle' which has been identified by the TEG's as a potential activity that the Council may wish to pursue. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management advisor.

8.18 The period for which a 'specified' investment will be made is a key aspect of the investment strategy. The criterion for this is set out in Appendix D. In essence, a short-term investment strategy (up to 364 days) will remain the Council's core approach. Investments in excess of 364 days are classified as 'non-specified' investments and will only be undertaken with prior approval of the Corporate Manager, Financial Services.

8.19 In terms of borrowing, consideration will be given to all forms of borrowing/financing in relation to any future borrowing: This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the European Investment Bank (EIB), money markets, capital markets (stock issues, commercial paper and bills) and leasing.

8.20 In conjunction with advice from Arlingclose, the Council will keep these sources of finance under review.

8.21 After using surplus internal funds temporarily, the PWLB remains the most likely source of new external long term borrowing whilst short term borrowing would be from other local authorities, including Mid Suffolk. The Council will receive the "certainty rate" discount of 0.2% on PWLB loans taken out between 1 November 2013 and 31 October 2014. It is unclear at the time of writing this report as to whether this will continue after 31 October 2014.

8.22 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with their treasury advisers, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source.

8.23 As clearly highlighted by the prudential Indicators, the level and ratio of General Fund borrowing costs will increase over the next few years to finance the potential capital programme. The affordability needs to be reviewed as part of the review of the Medium Term Financial Strategy.

9. Appendices

	Title	Location
(A)	Existing Investment and Debt Portfolio Position	Attached
(B)	Key factors and Information on Treasury Management Activities	Attached
(C)	Treasury Management Policy Statement	Attached
(D)	Treasury Management Strategy 2014/15	Attached
(E)	Institutions meeting high credit ratings criteria (as at end of December 2013)	Attached
(F)	Prudential Indicators	Attached
(G)	MRP Statement	Attached

10. Background Documents

10.1 CIPFA Treasury Management in the Public Services – 2011

10.2 The Prudential Code for Capital Finance in Local Authorities - 2011

Authorship:
Barry Hunter (01473) 825819
Corporate Manager - Finance barry.hunter@babergh.gov.uk

Caroline Pearce (01473) 825840
Financial Services Officer caroline.pearce@babergh.gov.uk

APPENDIX A

EXISTING INVESTMENT AND DEBT PORTFOLIO POSITION

	31/12/2013 Actual Portfolio £m
External Borrowing:	
Fixed Rate – PWLB	88.8
Fixed Rate – Market	0
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	88.8
Other Long Term Liabilities:	
- PFI	0
- Finance Leases	0
Total Gross External Debt	88.8
Investments: *Managed in-house*	
- Short-term monies (Deposits/ monies on call /MMFs)	12.3
- Long-term investments	0
Total Investments	12.3

Notes

1. The £88.8m relates entirely to the HRA - future borrowing is allocated specifically to the HRA or the General Fund based on the respective capital programmes.

2. Debt maturity of the largest HRA debts is as follows:

	£m
2025	6
2026	6
2031	25
2036	46.5
Total	**83.5**

3. Where appropriate, Prudential Indicators also include short-term loans

APPENDIX B

ECONOMIC OUTLOOK AND INTEREST RATE FORECAST

1.1 The economic interest rate outlook provided by Arlingclose is shown in the table below. They expect interest rates to remain low until at least 2016 due to the Bank of England's forward guidance policy, with interest rates likely to rise when unemployment levels reach 7%. Unemployment is currently 7.6% but is not expected to fall until 2016 due to the UK's flexible workforce. The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

1.2 Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. The Council's Treasury Advisor, Arlingclose Ltd, forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

1.3 The economic interest rate outlook provided by Arlingclose Ltd is shown in the table below. The Council will reappraise its strategy from time to time and, if needed, this will be realigned having regard to evolving market conditions and expectations for future interest rates:-

Economic & Interest Rate Forecast (ex Arlingclose)

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside Risk				-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3 month LIBID													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80
Central case	0.45	0.45	0.50	0.55	0.55	0.55	0.55	0.60	0.65	0.70	0.80	0.80	0.80
Downside Risk	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55
1-yr LIBID													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Central case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside Risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside Risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside Risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside Risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
Central case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside Risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

1.4 Consumer Price Inflation (CPI) was 2.1% in November 2013 having fallen from a peak of 5.2% in September 2011 and will help to allow real wage increases and therefore aid consumer spending.

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and Background

1.1 The Council adopts the key recommendations of the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain the following 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.

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

1.3 Full Council will receive recommendations from Strategy Committee on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation of its treasury management policies and practices to the Strategy Committee, monitoring to the Joint Standards and Audit Committee (or Babergh's Audit Committee) and the execution and administration of treasury management decisions to the Section 151 Officer and/or Corporate Manager - Financial Services, who will act in accordance with the organisation's policy statements, the TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Joint Standards and Audit Committee (or Babergh's Audit Committee) is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Policies and Objectives of Treasury Management Activities

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

2.2 The Council 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 the risk implications for the Council.

2.3 The Council recognises 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 performance measurement techniques within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

3. Policy on Use of Financial Derivatives

3.1 Some local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

3.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

3.3 Financial derivative transactions may be arranged with any organisation that meets the approved credit ratings (See Appendix D, Section 6). The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

3.4 The Council will only use derivatives after seeking advice from their treasury advisers, a legal opinion and ensuring officers have the appropriate training for their use.

<u>TREASURY MANAGEMENT STRATEGY 2014/15</u>

1. Background

1.1 Treasury Management is strictly regulated by statutory requirements. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the Prudential Code and set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act also requires the Council to set out annually its treasury strategy for borrowing and investment.

1.2 Effective management and decisions on funding ensure the Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

1.3 The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

1.4 The table below shows how the movement in actual external debt and useable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years.

	Forecast 2013/14 £m	**Estimate 2014/15 £m**	**Estimate 2015/16 £m**	**Estimate 2016/17 £m**
General Fund	6.6	12.8	12.6	14.5
Housing Revenue Account	88.8	88.3	87.8	87.3
TOTAL CFR	**95.4**	**101.1**	**100.4**	**101.8**
Less: Existing Profile of Borrowing	(88.3)	(87.8)	(87.3)	(86.8)
Cumulative Maximum External Borrowing Requirement	**7.1**	**13.3**	**13.1**	**15.0**
Balances & Reserves				
General Fund	(2.7)	(2.4)	(2.4)	(2.4)
Housing Revenue Account	(2.7)	(5.3)	(7.7)	(10.9)
Cumulative Net Borrowing Requirement/(Investments)	**1.7**	**6.6**	**3.0**	**1.7**

Note: The net borrowing requirement will increase to the extent that balances and reserves are spent over the next 3 – 4 years.

2. Borrowing Strategy

2.1 Treasury management (and the borrowing strategy in particular) are influenced by not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a 'cost of carry' for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the temporary borrowing and what is earned on the investment.

2.2 The Council will have regard to the above and adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source.

3. Sources of Borrowing and Portfolio Implications

3.1 In conjunction with advice from Treasury Management Advisors, the Council will keep under review the following borrowing sources:

- Surplus Internal Funds
- Public Works Loan Board (PWLB)
- Other Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

3.2 With short term interest rates currently much lower than long term rates, it is currently more cost effective to use either surplus internal funds or to borrow short term. By doing so the Council is able to reduce its net borrowing costs and reduce its overall treasury risk. However, although this strategy is beneficial whilst interest rates are low it is unlikely to be sustained in the medium term, and in conjunction with Arlingclose the Council will need to decide whether to borrow additional sums at long term fixed rates in 2014/15 with a view to keeping future interest costs low, even though this may result in additional cost in the short term.

4. Debt Rescheduling

4.1 The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

4.2 The current low interest rate environment and changes in the rules regarding the premature repayment of PWLB loans adversely affect the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Reduce investment balances and credit risk exposure
- Align long term cash flow projections and debt levels
- Savings in risk adjusted interest costs

- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio.

4.3 Borrowing and rescheduling activity will be reported to the Joint Audit & Standards Committee and Executive Committees as part of the mid-year and annual treasury management reports.

5. Policy on apportioning Interest to the HRA

5.1 On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are therefore charged/ credited to the respective revenue account.

5.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

6. Annual Investment Strategy

6.1 In accordance with Investment Guidance issued by CLG and best practice, the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yields earned on investments are important but secondary considerations.

6.2 The Council and its advisers remain alert for signs of credit risk and/or market distress that might adversely affect the Council.

6.3 Investments are categorised as "Specified" or Non-Specified" within the investment guidance issued by the CLG:

- Specified investments are sterling denominated investments with a maximum maturity of one year. They meet the "high credit quality" as determined by the Council (currently A- or A3 for UK banks and building societies; and AA- for foreign banks – AAA sovereign rating only) and are not deemed capital expenditure investments under Statute.
- Non-Specified investments are, effectively, everything else. These include investments made for periods greater than 1 year, which are considered less liquid as the cash is not quickly realisable.

6.4 See table below for an explanation of this credit rating by the main credit ratings agencies:

Fitch	A+ A A-	High credit quality – ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings (A+).
Moody’s	A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Standard & Poor’s	A+ A A-	An obligator rated ‘A’ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories (A+).

NB: Ratings of B or lower by the agencies are not deemed by the Council to acceptable. In broad terms, institutions rated B and below are subject to a higher credit risk and are generally considered unacceptable for local authorities.

6.5 The types of investments that will be used by the Council are summarised below:

Investment	Specified (Limit)	Non-Specified
a. Debt Management Account Deposit Facility	✓ No Limit	×
b. Term deposits with UK other local authorities	✓ (£2m)*	✓
c. Term deposits with banks and building societies	✓ (£2m)	✓
d. Treasury-Bills (T-Bills)	✓ No Limit	×
e. Money Market Funds	✓ (£2m)	×
f. Certificates of deposit with banks and building societies	✓	✓
g. Gilts: (bonds issued by the UK government)	✓	✓
h. Bonds issued by multilateral development banks	✓	✓
i. Local Authority Bills (LA Bills)	✓	×
j. Commercial Paper	✓	×
k. Corporate Bonds	✓	✓
l. Other Money Market Funds and Collective Investment Schemes	✓	✓
m. Investments with Registered Providers of Social Housing (new for 2013/14)	✓	✓

* Proposed that the normal limit is £2m (in line with other limits) but subject to being able to increase this to a maximum of £5m for lending between Mid Suffolk and Babergh as part of our shared service arrangements.

Note: Investments in instruments ‘d’ to ‘m’ above will be on advice from the Council’s treasury adviser, Arlingclose.

6.6 Two changes are proposed for the investment strategy for 2014/15 in response to evolving conditions in financial markets. It is considered that investments with UK Building Societies without credit ratings should be included within specified and non-specified investments. These will be analysed on an individual basis and discussed with Arlingclose prior to investing. In addition, the requirement for Money Market Funds to have a AAA rating has been removed following EU proposals to stop money market funds having credit ratings.

6.7 The Council and Arlingclose select financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent currently for UK banks and building societies)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example, a country’s net debt as a percentage of its GDP)
- Sovereign support mechanisms
- Share prices (where available)
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

6.8 The maximum period for individual investments meeting the highest primary criteria is up to 1 year, maximum 364 days, and regard will be had to any time-limited Government guarantees. Investments over 6 months (over 185 days) are subject to the prior approval of the Corporate Manager - Financial Services.

6.9 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.10 Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.11 Any institution can be suspended or removed from the list should any of the factors identified above give rise to concern. The institutions that currently meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are shown in Appendix E.

6.12 It remains the Council’s policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. Therefore an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

7. Council’s Banker

7.1 The Council currently banks with the Co-operative Bank plc. It does not meet the minimum credit rating of A- (or equivalent) long term. The Council, in conjunction with Babergh, Ipswich, Forest Heath and St Edmundsbury Borough Council have jointly procured banking arrangement with Lloyds with effect from 1 April 2014, who currently have a credit rating of A.

7.2 Should the credit rating fall below A-, the Council may continue to deposit surplus cash with Lloyds Bank plc providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

8. Investment Strategy

8.1 With short term interest rates remaining low, an investment strategy will typically be based on a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment, however, is finding an investment counterparty providing acceptable levels of counterparty risk.

8.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

8.3 Money market funds (MMFs) will be utilised, however, good treasury management practice prevails and whilst MMFs provide good diversification the Council will also seek to diversify any exposure by utilising more than one MMF. Funds that offer same day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, whilst funds whose value change with market conditions or have a notice period will be used for longer investment periods.

8.4 In addition to applying investment limits to individual institutions, clear sector limits should also be set. The following table summarises the various limits that should apply to each sector. The limit per institution is £2m, as in 2012/13, other than Leeds Building Society where the limit is £1m, the DMADF which is unlimited and Money Market Funds, which have a limit per fund of 10% of our total investments (except the Public Sector Deposit Fund which has a limit of £1m):-

Table 4 – Sector Limits

Sector Limits	Maximum limit of total investments 2014/15
UK Banks (Deposits & Call Accounts)	100%
UK Building Societies	25%
Deposits - Foreign Banks	40%
Money Market Funds	50%
Local Authorities	100%
DMADF	100%

9. Balanced Budget Requirement

9.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

10. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

10.1 Officers will report to Members on treasury management activity / performance and Performance Indicators as follows:

- Bi-annually against the strategy approved for the year.
- The Council will produce an outturn report on its treasury activity no later than 30 September after the financial year end.
- Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

11. Other Matters:

Training

11.1 CIPFA's Code of Practice requires the Section 151 Officer to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

11.2 The Council recognises the importance of ensuring that all staff and Members responsible for the delivery and scrutiny of the treasury management function are appropriately skilled and trained to undertake their duties. All training requirements are addressed through a range of internally or externally provided sessions appropriate to the skill / knowledge gaps and responsibility levels.

11.3 Treasury Management staff have the relevant experience and receive training as required.

Investment Consultants/Treasury Advisers

11.4 The Council's treasury management advisors are Arlingclose Ltd whose contract commenced on 1 June 2010 for 2 years, with an option to extend for a further 2 years, which has been taken up. The service from June 2014 will be market tested. The contract is a joint arrangement with Babergh.

11.5 The advisers provide the following services:

- Investment advice
- Technical support
- Counterparty creditworthiness (credit ratings)
- Debt management advice
- Economic updates
- Interest rate forecasts

11.6 The treasury advisor service is subject to regular review to ensure compliance with the requirements of the Treasury Management Strategy and TMPs' Use of External Service Providers.

11.7 The Council maintains the quality of the service with its advisers by holding quarterly meetings. Whilst the advisers provide support to the treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council.

11.8 The Council has regard to the requirements of the Bribery Act 2011 in their dealings with external advisors.

INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA (AS AT END OF DECEMBER 2013)

This is based on UK Banks and Building Societies A-, Money Market Funds, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

The individual counterparty limit is £2m with the exception of Leeds Building Society where the counterparty limit is £1m. The country limit is £2m.

Instrument	**Long Term Rating Fitch**		**Counterparty**
UK BANKS			
Term Deposits and Certificates of Deposit	AA-	*	HSBC Bank Plc
Term Deposits and Certificates of Deposit	A+	*	Standard Chartered Bank
Term Deposits and Certificates of Deposit	A	*	Barclays Bank
Term Deposits and Certificates of Deposit	A	**	Bank of Scotland (Lloyds Banking Group)
Term Deposits and Certificates of Deposit	A	**	Lloyds TSB (Lloyds Banking Group)
Term Deposits and Certificates of Deposit	A-	****	National Westminster Bank (RBS Group)
Term Deposits and Certificates of Deposit	A-	****	Royal Bank of Scotland (RBS Group)
Term Deposits and Certificates of Deposit	A-	*****	Close Brothers Ltd
Term Deposits and Certificates of Deposit	A	**	Santander UK Plc **(Member decision not to have on counterparty list)**
BUILDING SOCIETIES			
Term Deposits and Certificates of Deposit	A	*	Nationwide
Term Deposits and Certificates of Deposit	A-	*****	Leeds Building Society
FOREIGN BANKS			
Australia			
Term Deposits and Certificates of Deposit	AA-	*	Australia and NZ Banking Group
Term Deposits and Certificates of Deposit	AA-	*	Commonwealth Bank of Australia
Term Deposits and Certificates of Deposit	AA-	*	National Australia Bank
Term Deposits and Certificates of Deposit	AA-	*	Westpac Banking Group
Canada			
Term Deposits and	AA	*	Royal Bank of Canada

Instrument	**Long Term Rating Fitch**		**Counterparty**
Certificates of Deposit			
Term Deposits and Certificates of Deposit	AA-	*	Toronto-Dominion Bank
Finland			
Term Deposits and Certificates of Deposit	AA-	*	Nordea Bank
Netherlands			
Term Deposits and Certificates of Deposit	AAA	*	Bank Nederlandse Gemeenten NV (BNG)
Term Deposits and Certificates of Deposit	AA-	*	Rabobank
Singapore			
Term Deposits and Certificates of Deposit	AA-	**	Oversea-Chinese Banking Corporation
Term Deposits and Certificates of Deposit	AA-	**	United Overseas Bank
Sweden			
Term Deposits and Certificates of Deposit	AA-	*	Svenska Handelsbanken
MONEY MARKET FUNDS (MMF)			
Call Account	AAA	***	Ignis Sterling Liquidity Fund
Call Account	AAA	***	Goldman Sterling Liquid Reserves Fund
Call Account	AAA	***	Insight Sterling Liquidity Fund
Call Account	AAA	***	Prime Rate Sterling Liquidity Fund
Call Account	AAA	***	BlackRock Institutional Sterling Liquidity Fund

* Maximum limit to maturity of 12 months
** Maximum limit to maturity of 6 months
*** Maximum exposure limit of 10% of total investments per fund
**** Overnight limit
***** Maximum limit to maturity 100 days

MMFs – Prime Rate is domiciled in the UK for tax and administration purposes, Ignis Goldman Sachs, BlackRock and Insight are domiciled in Ireland for tax and administration purposes:-

Long Term Investment Grades

Rating Agency	Rating	Definition
HIGHEST RATING		
Fitch	AAA	Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
Moody's	Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Standard and Poor's	AAA	An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard and Poor's.
NEXT HIGHEST RATING		
Fitch	AA+ AA AA-	Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
Moody's	Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Standard and Poor's	AA+ AA AA-	An obligator rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
THIRD HIGHEST RATING		
Fitch	A+ A A-	High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
Moody's	A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Standard and Poor's	A+ A A-	An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.

PRUDENTIAL INDICATORS 2014/15 – 2016/17 (AND REVISIONS 2013/14)

12. Background

12.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objects of the Prudential Code are to ensure that the investment plans within the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

13. Gross Debt and the Capital Financing Requirement

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

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

13.3 The Section 151 Officer reports that the Council will have no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

14. Estimates of Capital Expenditure

14.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. The table below shows planned capital expenditure up to 2016/17:

Capital Expenditure	**2013/14 Approved**	**2013/14 Revised**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
General Fund	2.726	2.722	7.822	1.625	3.191
HRA	6.565	7.196	5.398	5.671	5.213
Total	**9.291**	**9.918**	**13.220**	**7.296**	**8.404**

14.2 Capital expenditure is expected to be financed for the General Fund and HRA as follows:-

Capital Financing GF	2013/14 Approved	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£m	£m	£m	£m	£m
Capital receipts	1.756	0.355	0.843	0.716	0.049
Government Grants	0.346	0.465	0.235	0.227	0.227
Revenue contributions	0.000	0.000	0.000	0.000	0.000
Total Financing	**2.102**	**0.820**	**1.078**	**0.943**	**0.276**
Unsupported borrowing	0.624	1.902	*6.744	0.682	2.915
Total Financing and Funding	**2.726**	**2.722**	**7.822**	**1.625**	**3.191**

Includes PV project of £4.5m on Council Housing.

Capital Financing HRA	2013/14 Approved	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£m	£m	£m	£m	£m
Capital receipts	0.330	0.330	0.276	0.066	0.066
Major Repairs Allowance	3.444	3.444	2.631	2.700	2.750
Revenue contributions	2.791	3.422	2.491	2.905	2.397
Total Financing	**6.565**	**7.196**	**5.398**	**5.671**	**5.213**
Unsupported borrowing	0.000	0.000	0.000	0.000	0.000
Total Financing and Funding	**6.565**	**7.196**	**5.398**	**5.671**	**5.213**

15. Ratio of Financing Costs to Net Revenue Stream

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

15.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	%	%	%	%	%
General Fund	4.46%	3.53%	4.88%	8.33%	9.67%
HRA	19.26%	19.26%	18.08%	17.58%	16.72%

16. Capital Financing Requirement

16.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes. The calculation of the CFR is taken from the amounts held on the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	**2013/14 Approved**	**2013/14 Revised**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
General Fund	5.884	6.578	*12.835	12.565	14.465
HRA	88.848	88.848	88.348	87.848	87.348
Total CFR	**94.732**	**95.426**	**101.183**	**100.413**	**101.813**

*Includes PV project of £4.5m on Council Housing.

17. Actual External Debt

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

Actual External Debt as at 31/03/2013	**£m**
Borrowing	88.797
Other Long-term Liabilities	0
Total	**88.797**

18. Incremental Impact of Capital Investment Decisions:

18.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (excluding revenue contributions) of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
	£	**£**	**£**
Increase in Band D Council Tax	5.65	3.39	5.37
Movement in Average Weekly Housing Rents	-6.18	2.69	-2.56

Note: The Band D Council Tax amount relates to the total capital programme requirement being externally borrowed. In reality, the use of internal surplus funds will reduce the figure. The rent variations reflect year on year variations in the total annual council housing capital programme.

18.2 The increase in Band D council tax reflects the increases in the provision for Capital Financing Charges of £1m to undertake borrowing of £12m arising from the proposed capital programme from 2014/15 to 2016/17. No borrowing is predicted for the HRA between 2014/15 and 2016/17.

19. Authorised Limit and Operational Boundary for External Debt:

19.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

19.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

19.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

19.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2013/14**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	Approved	**Revised**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	98	98	104	103	105
Other Long-term Liabilities	0	0	0	0	0
Total	**98**	**98**	**104**	**103**	**105**

19.5 There is also an Operational Boundary for external debt, which links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

19.6 The Section 151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the Scrutiny Committee as part of the half yearly reports.

Operational Boundary for External Debt	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	96	96	102	101	103
Other Long-term Liabilities	0	0	0	0	0
Total	**96**	**96**	**102**	**101**	**103**

20. HRA Limit on Indebtedness

20.1 This indicator shows the HRA CFR compared to the HRA CFR debt cap.

HRA Limit on Indebtedness	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA CFR	88.848	88.848	88.348	87.848	87.348
HRA Debt Cap (as prescribed by CLG)	97.849	97.849	97.849	97.849	97.849
(-) Under / Over debt cap	**-9.001**	**-9.001**	**-9.501**	**-10.001**	**-10.501**

21. Adoption of the CIPFA Treasury Management Code

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

21.2 The Council approved the adoption of the CIPFA Treasury Management Code on 1 April 2002. CIPFA revised the Treasury Management Code in November 2011 following recent developments and anticipated regulatory changes to the Localism Act 2011, including the housing finance reforms and the introduction of the General Power of Competence.

The Council will adopt the latest Code and the changes have been incorporated into the Treasury Management Strategy including its treasury policies, procedures and practices.

22. Gross Debt

22.1 The figures below show the gross debt. This should not (and must not) exceed the CFR for the Council.

Gross Debt	2013/14 Revised £m	2014/15 Authorised £m	2015/16 Authorised £m	2016/17 Authorised £m
Outstanding Borrowing (at nominal value)	88.297	89.997	91.697	91.197
Other Long-term Liabilities (at nominal value)	0	0	0	0
Gross Debt	**88.297**	**89.997**	**91.697**	**91.197**

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

Interest Rate Exposures	Existing level or Benchmark level at 31/03/13 %	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)	(100)
Net Fixed Exposure	**0**	**0**	0	0	0	0
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	30	30	30	30	30	30
Upper Limit for Variable Interest Rate Exposure on Investments	(60)	(75)	(100)	(100)	(100)	(100)
Net Variable Exposure	**(30)**	**(45)**	**(70)**	**(70)**	**(70)**	**(70)**

23.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

23.2 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

24. Maturity Structure of Fixed Rate borrowing

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

24.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. LOBO's are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing	**Existing level (or Benchmark level) at 31/12/13 %**	**Lower Limit for 2014/15 %**	**Upper Limit for 2014/15 %**
under 12 months	0.6	0	50
12 months and within 24 months	0.6	0	50
24 months and within 5 years	1.7	0	50
5 years and within 10 years	1.7	0	100
10 years and within 20 years	41.7	0	100
20 years and within 30 years	52.5	0	100
40 years and above	1.2	0	100

25. Credit Risk

25.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

25.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

25.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The tools used to assess credit risk are shown in Appendix C.

25.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

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

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

Upper Limit for total principal sums invested over 364 days	**2013/14 Approved £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
	2	2	2	2

2014/15 MRP Statement

1. Guidance on the Minimum Revenue Provision (2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

2. The four MRP options available are:

   - Option 1: Regulatory Method
   - Option 2: CFR Method
   - Option 3: Asset Life Method
   - Option 4: Depreciation Method

3. Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported non-HRA capital expenditure if the Council chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

4. As in previous years the Council will apply Option 2 in respect of supported non-HRA capital expenditure funded from borrowing and Option 3 in respect of unsupported non-HRA capital expenditure funded from borrowing.

5. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to the Council at that time.