London Borough of Barnet
Treasury Management Strategy Statement and Investment Strategy revised 2014/15 2015/16 to 2017/18

Contents

Annexes

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance.

1.2 In accordance with the requirements of the Prudential Code, the Council adopted the CIPFA Treasury Management Code on 3 January 2003 and it has incorporated the changes from the revised CIPFA Code of Practice (2011) into its treasury policies, procedures and practices.

1.3 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 The Council is responsible for its treasury decisions and activity. The Council is exposed to financial risks including the potential loss of invested funds and the revenue effects of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

1.5 The strategy takes into account the impact of the Council's revenue budget and capital programme on the balance sheet position, the current and projected treasury position (Annex A), the Prudential Indicators (Annex B) and the outlook for interest rates (Annex C).

1.6 The purpose of this Treasury Management Strategy Statement is to approve:

- Revisions to Treasury Management Strategy and Prudential Indicators for 2014-15
- Treasury Management Strategy for 2015-16;
- Annual Investment Strategy for 2015-16;
- Prudential Indicators for 2015-16, 2016-17 and 2017-18 (Annex B)
- MRP Statement. (See Para 9).

1.7 The main recommended revisions to the Treasury Management Strategy are: (Subject to investment advice for each new investment decision)

- Maximum investment limit for non-specified investments, (more than one year), increased to £100 million and £50 million for more than two years.
- Further diversification of financial instruments into more secure /higher yield asset classes in consultation with the Council's investment advisor.

- Decisions in respect of investments over two years will be taken in consultation with the Councils investment advisor and approved by the Chief Finance Officer.
- Following a competitive tender the Royal Bank of Scotland will be managing the Council bank contract and overnight investment with RBS is permitted.
- The prudential indicators have been updated to reflect the Council's capital programme and future borrowing requirement; and
- The strategy has been updates to reflect the latest forecast for interest rates. Base rate is expected to remain at 0.5% for most of 2015/16 and therefore the assumptions in the budget strategy for interest receipts remain the same.

2. **Balance Sheet and Treasury Position**

2.1. The underlying need to borrow for capital purposes, is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are the core drivers of treasury management activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

Table 1 Balance Sheet Summary Analysis:

	31/03/2015 Estimate £000	**31/03/2016 Estimate £000**	**31/03/2017 Estimate £000**	**31/03/2018 Estimate £000**
General Fund CFR	179,716	213,636	256,697	277,179
HRA CFR *	199,559	200,602	209,002	212,002
Total CFR	**379,275**	**414,238**	**465,699**	**489,181**
Less: Existing Profile of Borrowing and Other Long Term Liabilities	(321,194)	(320,860)	(320,487)	(320,114)
Cumulative Gross Borrowing Requirement	**58,081**	**93,378**	**145,212**	**169,066**
Usable Reserves	(120,000)	(60,000)	(60,000)	(60,000)
Cumulative Net Borrowing Requirement/(Investments)	**(61,919)**	**33,378**	**85,212**	**109,066**

** This figure includes the HRA debt increase on account of Housing Reform of £102.580m.

2.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Annex A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements. A list of Prudential Indicators is set out in **Annex B**.

Financing costs

2.3. The budget estimate for interest payments in 2015/16 is £11.9 million (including £6.85m for HRA borrowing) and for interest receipts is £1.703m. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.5%, and that new long-term loans will be borrowed at an average rate of 4.5%.

2.4. The Council may borrow funds in excess of the current level of its CFR up to the projected level in 2017/18.The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. Given current interest rates, this situation is unlikely to occur in 2015/16.

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

2.6. The Council's balance of actual gross borrowing plus other long-term liabilities is shown in Annex A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

2.7. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and 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	**2014/15 Revised £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Borrowing	504,235	507,527	531,664	531,780
Other Long-term Liabilities	32,114	31,780	31,407	31,034
Total	**536,349**	**539,307**	**563,071**	**562,814**

2.8. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow 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.

Operational Boundary for External	**2014/15 Revised**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**

Debt	£000	£000	£000	£000
Borrowing	504,235	507,527	531,664	531,780
Other Long-term Liabilities	17,114	16,780	16,407	16,034
Total	**521,349**	**524,307**	**548,071**	**547,814**

3. Outlook For Interest Rates

3.1. The Council's Treasury adviser Arlingclose , forecasts a slow rise in official interest rates from August 2015 with the an average for 2015-16 of around 0.75%, though if the negative indicators from the Eurozone become more entrenched, the Bank of England is more likely to defer rate rises to later in the year. Arlingclose projects gilt yields to rise in the medium term.

3.2 The economic interest rate outlook provided by the Council's current treasury advisor, Arlingclose Ltd, is attached at Annex C. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

4. Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Annex C indicates that an acute difference between short and longer term interest rates is expected to continue. 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 borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position. This position means that it is favourable, where possible, for the Council to use internal balances, rather than take on new debt, in the short term.

4.2 The Authority has a gross and net borrowing requirement and will be required to borrow up to £44.671 million in 2015/16 on a gross basis (to be financed mainly through internal borrowing). The Authority will adopt a flexible approach to future borrowing and debt rescheduling in consultation with its treasury management advisers. 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.

Sources of Borrowing and Portfolio implications

4.3 In conjunction with advice from its treasury advisor, the Authority will keep under review the following external borrowing sources:

- Public Works Loan Board (PWLB) (or its replacement)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except for LB Barnet Pension Fund).
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- Capital markets (stock issues, commercial paper and bills)

In addition, capital finance may be raised by the following methods that are not borrowing but may be classified as other debt liabilities.

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.4 The cost of carry may result in an increased reliance upon shorter dated and variable rate borrowing for the Council. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's potential for exposure to shorter dated and variable rate borrowing will be kept under regular review, if applicable, by reference to the difference or spread between variable rate and longer term borrowing costs.

4.5 The Council has £62.5m loans which are LOBO loans (Lender's Options Borrower's Option) of which £45m of loans are currently in or will be in their call period in 2015/16. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.

4.6 The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report.

Debt Rescheduling

4.7 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.

4.8 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise.

4.9 The rationale for rescheduling would be one or more of the following:

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

4.10 Any borrowing and rescheduling activity will be done under delegated authority and reported to the Policy and Resources Committee.

5 Annual Investment Strategy

5.1 The Council sets an Annual Investment Strategy (AIS) in accordance with best practice and to comply with CLG Guidance on Local Government Investments.

5.2 The Council's investment priorities are:

- Security of the invested capital;
- Liquidity of the invested capital;
- An optimum yield which is commensurate with security and liquidity

5.3 The authority and its advisers remain on a heightened state of alert for credit or market distress that might adversely affect the Authority

5.4 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 also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

5.5 The types of investments that may be used by the Authority and whether they are specified or non-specified are set out in the table below:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes (Pooled Funds)	✓	✓
Other pooled equity and property funds	✓	✓
Debt Management Account Deposit Facility	✓	×

5.6 Investments with Registered Providers will be analysed on an individual basis and discussed with the Council's treasury adviser prior to an investment decision.

5.7 The Authority and its advisors, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum A- or equivalent) and its sovereign rating (minimum AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example 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

5.8 Any institution can be suspended or removed should any of the factors identified above give rise to concern.

5.9 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix E, the Director of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

5.10 Any institution will be suspended or removed should any of the factors identified above give rise to concern. Credit ratings are monitored by the Authority on an ongoing basis and whenever a new investment is under consideration. The Authority is informed by the treasury adviser of ratings changes and appropriate action to be taken.

5.11 The countries and institutions that would currently meet the proposed criteria for investments are included in *Annex D.*

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

5.13 The Council revised its investment strategy in the wake of the banking crisis. This led to restrictions on investment duration and use of a limited range of counterparties. The duration limit for deposits was set at a maximum 364 days and further restricted by an operational overlay. The financial situation is more settled now and enough to consider extending investment duration beyond 364 days subject to an overall investment limit of £100 million up to 10 years. (Increased from a £50 million limit in 2014-15)

5.14 The Council will have substantial cash balances available for investment over the medium term. It will therefore consider using pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.15 Following a competitive tender exercise held in 2014, the Council appointed the Royal Bank of Scotland (RBS), to the corporate bank contract .RBS is currently rated below the minimum A- rating in table 2. The Authority may continue to deposit surplus cash with RBS, providing that investments 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). The Council will continue to bank with the current banking provider, the Co-operative Bank until 31st March 2015.

6 Investment Strategy

6.1 With short term interest rates low for even longer, an investment strategy will typically result in 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 is finding an investment counterparty providing acceptable levels of counterparty risk.

6.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

6.3 Money market funds (MMFs) will be used as they provide good diversification. The Council will also seek to manage operational risk by using at least two MMF's. The Authority will also restrict its exposure to MMF's with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMF's, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

7 Policy on Use of Financial Derivatives

7.1 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.

7.2 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 Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

8 Housing Revenue Account Self-Financing

8.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

8.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

8.3 From 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed 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) will be charged/ credited to the respective revenue account.

8.4 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 and interest transferred annually between the General Fund and HRA at an internally determined rate of interest.

9 2014/15 MRP Statement

9.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place 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.

9.2 The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method

Option 3: Asset Life Method
Option 4: Depreciation Method
NB This does not preclude other prudent methods

9.3: Options 1 and 2 may be used only for supported non –HRA capital expenditure funded from borrowing. Methods of making prudent provision for self-financed 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 for borrowing (Barnet policy).

9.4 The MRP Statement will be submitted to Council before the start of the 2015/16 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

9.5 The Council will apply Option 2 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

9.6 MRP in respect of leases brought on Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

10 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

10.1 Treasury activity is monitored and reported internally to the Chief Operating Officer. The Prudential Indicators will be monitored through the year and reported as follows:

The Chief Operating Officer will report to the Performance and Contract Monitoring Committee on treasury management activity and performance and on related Performance Indicators:

(a) Quarterly against the strategy approved for the year.
(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

11 Other Items

Training

11.1 CIPFA's Code of Practice requires the Deputy Chief Executive 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.

Investment Consultants

11.2 The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

11.3 Following a tender process, the Council appointed Arlingclose as their Treasury Investment Consultants with effect from 1 August 2010.The Arlingclose provide advice, information and assistance with investments, borrowing, debt restructure, market conditions and compliance with legislation. The services provided by Arlingclose are reviewed on an informal basis during quarterly meetings with officers and periodic tendering.

EXISTING PORTFOLIO PROJECTED FORWARD

	31 Mar 15 Estimate £000	31 Mar 16 Estimate £000	31 Mar 17 Estimate £000	31 Mar 18 Estimate £000
External Borrowing: Fixed Rate – PWLB Fixed Rate – Market Variable Rate – PWLB Variable Rate – Market	 241,580 62,500	 274,958 62,500	 326,792 62,500	 350,646 62,500
Total External Borrowing	304,080	337,458	389,292	413,146
IFRS Long Term Liabilities: - PFI	 17,409	 16,780	 16,407	 16,034
Total Gross External Debt	321,489	354,238	405,699	429,180
Investments: *Managed in-house* - Short-term monies (Deposits/ monies on call /MMFs) - Long-term investments *(maturities over 12 months)*	 (200,000)	 (140,000)	 (100,000)	 (100,000)
Total Investments	(200,000)	(140,000)	(100,000)	(100,000)
Net Borrowing Position/ (Net Investment position)	121,489	214,238	305,699	329,180

ANNEX B

PRUDENTIAL INDICATORS

Prudential Indicators

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.

Gross Debt and the Capital Financing Requirement;

2 This is key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two years. The DCE reports that the authority had no difficulty meeting this requirement in 2011/12, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Estimates of Capital Expenditure:

3 It is a requirement of the Prudential Code that that the Council ensures that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	**2014/15 Revised £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Non-HRA	70,786	136,459	88,532	65,506
HRA	27,819	49,508	31,424	25,171
Total	**98,605**	**185,967**	**119,956**	**90,677**

4 Non HRA Capital expenditure is expected to be financed as follows

Capital Financing	**2014/15 Revised £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Capital receipts	3,541	23,526	10	500
Government Grants	32,522	41,701	12,167	8,620
Section 106 contrib.	13,238	10,776	10,108	9,063
Capital Reserve	426	15,710	10,885	13,095
Revenue contributions	4,874	1,117	45	
Total Financing	**54,601**	**92,830**	**33,215**	**31,278**
Supported borrowing				
Unsupported borrowing	16,185	43,629	55,317	34,228
Total Funding	**16,185**	**43,629**	**55,317**	**34,228**
Total Financing and Funding	**70,786**	**136,459**	**88,532**	**65,506**

HRA Capital expenditure is expected to be financed as follows:

Capital Financing	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital receipts	550	16,414	0	0
Section 106	937	894	698	650
Revenue contributions	26,332	31,157	22,326	21,521
Total Financing	**27,819**	**48,465**	**23,024**	**22,171**
Supported borrowing				
Unsupported borrowing	0	1,043	8,400	3,000
Total Funding	0	1,043	8,400	3,000
Total Financing and Funding	**27,819**	**49,508**	**31,424**	**25,171**

Incremental Impact of Capital Investment Decisions

5 As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Increase in Band D Council Tax	31.72	21.58	41.60	26.99
Increase in Average Weekly Housing Rents				

Financing costs

6.The ratio of financing costs to the Council's net revenue stream 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 borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Non-HRA	3.27	4.27	5.20	5.95
HRA	16.94	17.19	17.59	18.45

Upper Limits for Fixed Interest Rate Exposure and Variable Rate Exposure

7. The following Prudential 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. The Council's existing level of fixed interest rate exposure is 100% and variable rate exposure is 0%.

	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	30%	30%	30%	30%

Maturity Structure of Fixed Rate Borrowing

8. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level as at 31/03/15 %	Lower Limit for 2015/16 %	Upper Limit for 2015/16 %
under 12 months	0	0	50
12 months and within 24 months	0	0	50
24 months and within 5 years	0	0	75
5 years and within 10 years	0	0	75
10 years and within 20 years	30.6	0	100

20 years and within 30 years	35.5	0	100
30 years and within 40 years	6.8	0	100
40 years and within 50 years	9.0	0	100
50 years and above	18.1	0	100

Actual External Debt:

9. 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 31/03/2014	**£000**
Borrowing	304,080
Other Long-term Liabilities	17,409
Total	321,489

Upper Limit for principal sums invested over 364 days:

10 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. 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	**2014/15 Revised £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
	100,000	100,000	60,000	40,000

HRA Limit on Indebtedness

11 Required by the revised Prudential Code, issued in November 2011:

HRA Limit On Indebtedness	**2014/15 Revised £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
HRA CFR	199,559	200,602	209,002	212,002
HRA Debt Cap (as prescribed by CLG) *	240,043	240,043	240,043	240,043
Difference	(40,484)	(39,441)	(31,401)	(28,041)

Annex C – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90

Underlying assumptions:

- The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.
- Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and

underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

- We continue to forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields has flattened due to the sharp decline in inflation expectations. We project gilt yields on an upward path in the medium term.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

Annex D –Recommended Sovereign and Counterparty List (Section 5 and 6)

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A-(Fitch); A (Moody's;) A (S&P)
The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.
Investment subject to £100 million total limit if duration more than 364 days and £60 million if duration than two years

Group Limits - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£25 million
Term Deposits/Call Accounts	UK*	Counterparties rated at least A- Long Term)	
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A- Long Term in select countries with a Sovereign Rating of at least AA+	
CDs and other negotiable instruments		with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	
Deposits	UK	Registered Providers (Former RSLs)	£5m/RP
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	

AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	10% of total LBB investment cash outstanding for each MMF.
Other MMF's and CIS	UK/Ireland/ Luxembourg domiciled	Collective Investment Schemes (pooled funds) which meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	10% of total LBB investment cash outstanding for each MMF/CIS.

For Non-UK Banks - a maximum exposure of £40 million per country will apply to limit the risk of over-exposure to any one country.

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limit £m**	**Maximum Group Limit (if applicable) £m**
Term Deposits/Call Accounts/Certificates of Deposit	UK	Bank of Scotland (Lloyds Banking Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	UK	Lloyds TSB (Lloyds Banking Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	UK	Barclays Bank Plc	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	UK	Clydesdale Bank (National Australia Bank Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	UK	HSBC Bank Plc	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	UK	Nationwide Building Society	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	UK	NatWest (RBS Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	UK	Royal Bank of Scotland (RBS Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	UK	Standard Chartered	£25,000,000	

Term Deposits/Call Accounts/Certificates of Deposit	UK	Santander UK plc	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Australia	Australia and NZ Banking Group	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Australia	Commonwealth Bank of Australia	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Australia	National Australia Bank Ltd (National Australia Bank Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts/Certificates of Deposit	Australia	Westpac Banking Corp	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Canada	Bank of Montreal	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Canada	Bank of Nova Scotia	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Canada	Canadian Imperial Bank of Commerce	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Canada	Royal Bank of Canada	£25,000,000	
Term Deposits/Call Accounts/Certificates of Deposit	Canada	Toronto-Dominion Bank	£25,000,000	

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

Non-specified investments may be made with the following instruments: (The Authority will have a maximum of £100million of its investment portfolio in non-specified investments.)

Instrument	**Maximum maturity**	**Max £M of portfolio and Credit limit**	**Capital expenditure?**	**Example**
Term deposits with banks, building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Term deposits with local authorities	10 years	£25m per authority	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Gilts	10 years	£20 million Credit limit not applicable gilts issued by UK Government	No	
Bonds issued by multilateral development banks	10 years	£20 million Minimum credit rating AA+	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	5 years	£20 million Minimum credit rating AA+	No	

Other Non-Specified investments for consideration (such investment will be subject to credit assessment by the Council's treasury advisor on a case by case basi				
Money Market Funds and Collective Investment Schemes	N/A – these funds do not have a defined maturity date	£20 million	No	Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund
Deposits with registered providers	5 years	£5m per registered provider/£20 million overall	No	
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	20%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	N/A – these funds do not have a defined maturity date	£10 million	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund
Bank or building societies not meeting specified criteria	3 months	£10m per counterparty	No	Bank or building societies not meeting specified criteria