AGENDA ITEM 13a

REPORT

SUBJECT:	**Treasury Management Policy Statement & Strategy Statement, MRP Policy Statement and Investment Strategy 2014/15**
DIRECTORATE:	**Chief Executive's Unit**
MEETING:	**Council**
DATE:	**27th February 2014**
DIVISION/WARDS AFFECTED:	**Countywide**

1. PURPOSE:

1.1 To adopt the annual Treasury Management Policy Statement and the Treasury Management Strategy Statement and Investment Strategy for 2014/15 to 2017/18 incorporating the Minimum Revenue Provision (MRP) Statement for 2014/15.

2. RECOMMENDATIONS:

2.1 It is recommended that the proposed Treasury Management Policy Statement for 2014/15 (appendix 2) and proposed Treasury Management Strategy and Investment Strategy 2014/15 to 2017/18 (appendix 1), including the Minimum Revenue Provision (MRP) Statement for 2014/15, be approved together with the Treasury Limits as required by section 3 of the Local Government Act 2003.

3. KEY ISSUES:

Treasury Management Policy Statement and Treasury Management and Annual Investment Strategy

3.1 Treasury Management is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

3.2 The Authority pays due regard to CIPFA's Code of Practice for Treasury Management in the Public Services (the "Code") and accompanying Guidance Notes (as revised in 2011) and the Prudential Code for Capital Finance in Local Authorities (as revised in 2011). The Prudential Code for Capital finance in local authorities outlines requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy.

3.3 The Prudential Code further requires the Council to set a number of Prudential and Treasury Management indicators. The attached strategy therefore incorporates the indicators to which regard should be given when determining the Council's treasury management strategy for 2014/15 and indicatively for the subsequent 3 financial years. The Indicators are based on the capital budget proposals being separately approved by Council at its meeting dated 27th February 2014.

3.4 The Council also has regard to the WG Guidance on Local Government Investments. This guidance requires the production of an Investment Strategy in addition to a Treasury Management Strategy, and allows Councils to combine these two strategies into one document. Pages 6 and 7 of appendix 1 contains the Councils proposed Investment Strategy. With regards to investments the Codes and Guidance emphasize an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities are required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds.

3.5 The Code requires that Council approve annually a Treasury Management Policy Statement and a Treasury Management Strategy Statement and Investment Strategy. The Council also has regard to the revised Welsh Government (WG) guidance on Local Government Investments issued in April 2010.

3.6 Furthermore, as a minimum, the Code requires that the Authority formally report on their treasury activities and arrangements at the mid-year point and after the year-end. Audit Committee is identified as being the committee responsible for reviewing update reports on the treasury function, given its overarching role in assessing the risk management arrangements for the Authority.

3.7 The Council delegates responsibility for the execution and administration of treasury management decisions to the Head of Finance (S151 officer) who will act in accordance with the Treasury Management policy statement (appendix 2) and treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.

3.8 Arlingclose were re-appointed as the Council's treasury management advisor in April 2011. Arrangements to extend the contract to cover 2014/15 are currently being finalised. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented.

3.9 The Council is also clear that overall responsibility for treasury management remains with the Council.

Annual Minimum Revenue Provision Policy Statement

3.10 The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council.

3.11 Authorities are permitted discretion in terms of the charge levied, albeit within certain parameters. A "prudent" period of time for debt repayment is defined as being one which reflects the period over which the associated capital expenditure provides benefits. Annex C of the attached Treasury Management Strategy and Investment Strategy (Appendix 1) incorporates the Council's Statement in this regard.

Changes influencing proposed amendments to strategy

3.12 To add flexible in securing investment returns, Treasury advisers recommend the inclusion of particular building societies as additional specified instruments.

3.13 As per the credit outlook section in (Appendix 1) the risk of banking failures has diminished, but not dissipated altogether. However regulatory change afoot in the UK means that bail outs will be replaced with bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. Consequently any investments that we hold in a bank when it fails, would not be secure or guaranteed returned. Our treasury advisers remain comfortable that the limits set in (Appendix 1), table 3 are a suitable level of diversification to mitigate against loss.

4. REASONS:

4.1 The Authority is required to produce a Treasury Management Policy and a Treasury Management and Annual Investment Strategy in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").

4.2 The Authority is required to produce an MRP Policy Statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations, last amended in 2009.

5. RESOURCE IMPLICATIONS:

5.1 There are no resource implications directly arising from this report. The medium-term treasury budgets contained within the 2014-2015 revenue budget proposals being presented to Council on 27th February, along with indicative revenue budgets for 2014-18, have been constructed in accordance with the strategy documents appended to this report.

5.2 There are however some key future financial risks on medium-term treasury budgets concerning:

- The number of significant capital receipts in the existing medium-term forecasts, and on which the authority's internal borrowing strategy and budgets are based. There will be an adverse financial impact in the event that such receipts do not materialize or are significantly delayed.

- The current medium-term capital programme does not factor in commitments towards the future schools programme other than Raglan. The need for the Authority to finance the full programme through capital receipts or prudential borrowing will have a consequential impact on treasury budgets due to the reduction in capacity to internally borrow and the requirement for additional long term external borrowing, and this has been taken into account in the revenue budget projections.

- The strategy states the Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. It presents the option of taking advantage of currently low short-term interest rates possibly at the expense of increasing future borrowing costs. This balance will be monitored regularly in order 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 if this causes additional cost in the short-term.

- It should be noted that as a result of the expenditure plans of the Authority and the forecasts for interest rates in the future, that borrowing costs are expected to rise in the medium/long term even without financing of future schools initiative. Should the balance of the £80m future schools programme be approved they will rise significantly further..

6. EQUALITY IMPACT ASSESSMENT:

There is no equality impact arising directly from this report.

7. SUSTAINABLE DEVELOPMENT IMPLICATIONS:

None

8. BACKGROUND PAPERS:

Appendix 1 – Treasury Management Strategy Statement & Investment Strategy 2014/15 (including MRP policy statement)
Appendix 2 – Treasury Management Policy Statement

9. AUTHORS:

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Treasury Management Strategy Statement 2014/15

Introduction

In March 2005 the Authority first adopted the Chartered Institute of Public Finance code of practice (revised in 2011) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance stated it was committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013 and at that time was not forecast to fall below the threshold until 2016, due to the UK's flexible workforce. In January 2014 the unemployment rate fell to 7.1% but members of the Monetary Policy Committee stated that the 7.0% limit was a threshold not a trigger and that they had no intention to raise interest rates immediately. The MPC is expected to review its forward guidance shortly.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

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. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US, expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. After some delay the Fed eventually confirmed in December 2013 tapering of $10bn a month from its current position of $85bn.

Credit outlook: The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Coop which will suffer a haircut on its conversion bail-in to alternative securities and/or equity There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table in Annex A shows shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 1.1% and 0.7%.

A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at *Annex A*.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.50%, and that new short-term loans will be borrowed at an average rate of 1.25%.

Local Context

The Authority currently as at 31st December 2013 has £96.2m of borrowing and £13m of investments. This is set out in further detail at *Annex B*. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below which is in line with the Current 2014/15 Capital MTFP proposals including Raglan School but excluding further 'Future Schools'.

Table 1: Balance Sheet Summary and Forecast

End of Year Requirement:	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund CFR	120.5	115.8	114.1	112.4	110.7
Less: External Borrowing (PWLB and LOBO) **	71.9	68.4	66.6	60.6	60.6
Less: Short Term Local Authority Borrowing	20.0	0.0	0.0	0.0	0.0
Less: Other Long Term Liabilities *	1.3	1.1	1.1	1.1	1.1
Cumulative Maximum External Borrowing Requirement	**27.3**	**46.3**	**46.3**	**50.7**	**49.0**
Less: Usable reserves	23.9	30.4	41.9	44.9	46.0
Cumulative Net Borrowing Requirement / (Investments)	**3.4**	**15.9**	**4.4**	**5.8**	**3.0**

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

Table 2 provides the balance sheet analysis should the Future School program go ahead in line with current proposals. This is for information only.

Table 2: Balance Sheet Summary and Forecast including whole Future Schools Programme

End of Year Requirement:	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund CFR	120.5	115.8	125.6	123.1	120.4
Less: External Borrowing (PWLB and LOBO) **	71.9	68.4	66.6	60.6	60.6
Less: Short Term Local Authority Borrowing	20.0	0.0	0.0	0.0	0.0
Less: Other Long Term Liabilities *	1.3	1.1	1.1	1.1	1.1
Cumulative Maximum External Borrowing Requirement	**27.3**	**46.3**	**57.9**	**61.4**	**58.7**
Less: Usable reserves	24.7	28.3	29.7	20.3	17.6
Cumulative Net Borrowing Requirement / (Investments)	**2.6**	**18.0**	**28.2**	**41.1**	**41.1**

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. The Authority's preferred strategy has been to maintain borrowing and investments below the levels indicated by CFR and Usable Reserves, sometimes known as internal borrowing, subject to holding a minimum investment balance required for operational purposes. However the Authority exhausted its ability to increase internal borrowing in 2012/13 and has since been periodically renewing a balance of short term Local Authority borrowing. At the date of this report the balance of such loans is £23m.

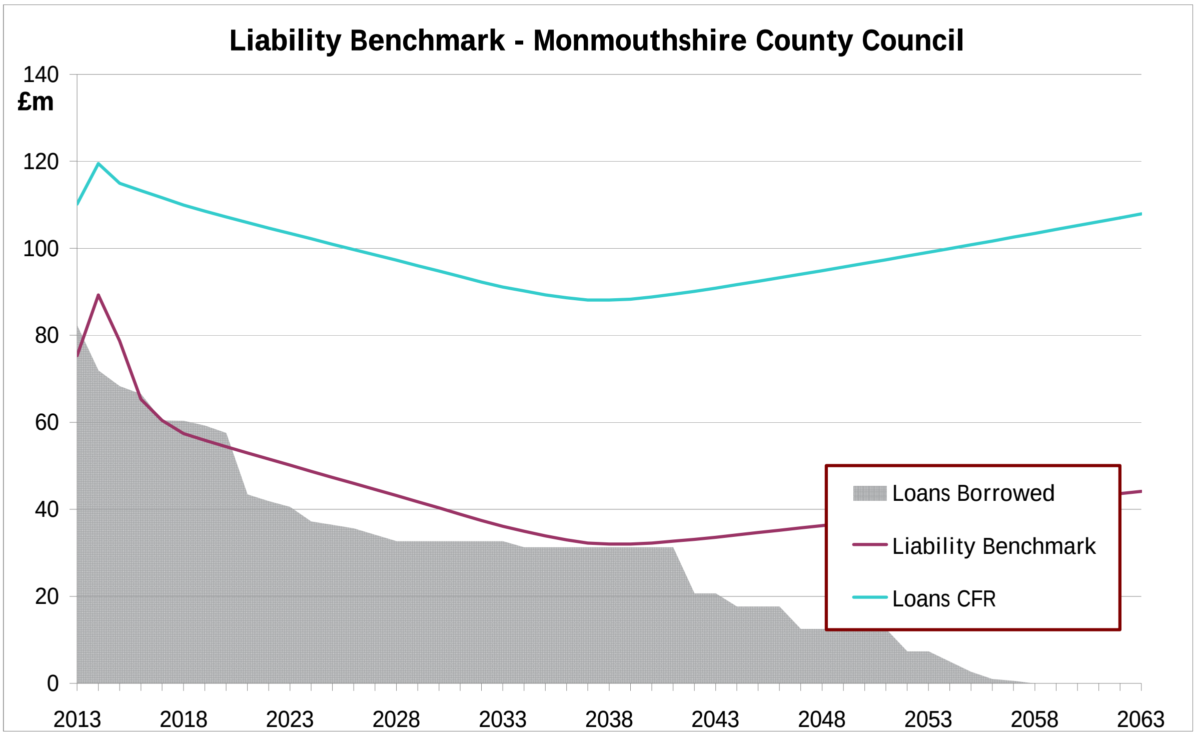
Without the full 'Future schools' program, the Authority has a fairly constant level of CFR due to the expenditure in the forward capital programme being offset by MRP payments. Renewal of borrowing as it matures will therefore need to continue through 2014/15.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2014/15.

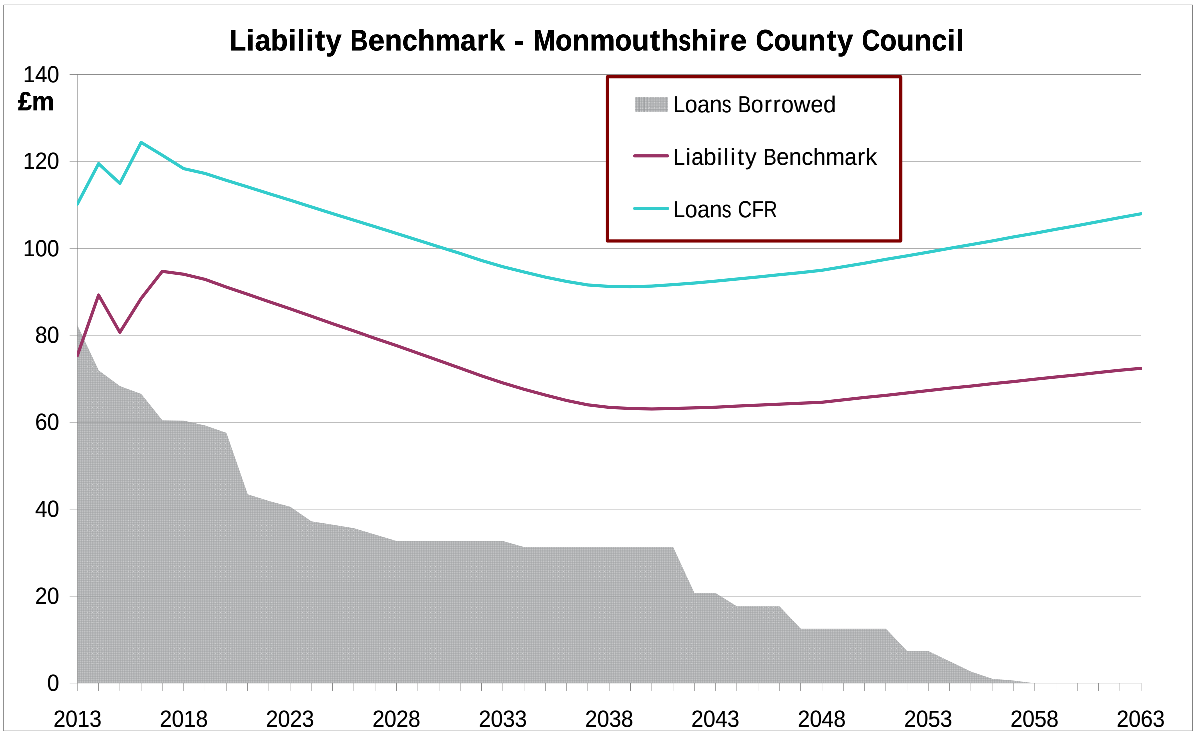
To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the medium term forecasts in tables 1 and 2 above, the benchmark assumes:

- capital expenditure funded by borrowing of £3,420,000 a year
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- reserves are not utilised after the MTFP window ending 2017/18
- income and expenditure increase by 2.5% inflation a year

Liability Benchmark - Including Raglan but excluding other future schools programme



Liability Benchmark – Including whole Future Schools Programme



The Liability Benchmark Charts show:

Loans CFR - the Authorities need to borrow for capital expenditure purposes based on budgeted borrowing

Loans borrowed – actual loans taken out excluding short term loans and reducing as current long term loans mature

Liability Benchmark – The minimum level of external borrowing required to maintain a minimum level of cash, required for operational purposes.

From this it can be seen that without the extended 'Future Schools' program, about £10m of borrowing will be needed over the next one to two years and then again around 2021. This could be satisfied by short term borrowing.

With the extended 'Future Schools' program, borrowing will need to be increased by £10m - £45m peaking in 2026. This could be satisfied by a mix of short term and long term borrowing which would depend on interest rates achievable now and forecast into the future.

Borrowing Strategy

The Authority's existing debt portfolio will total £91.9m as at 31st March 2014 [if no further borrowing is taken between now and year-end], an increase of £9.6m on the previous year, as part of the requirement for funding the capital programme. The balance sheet forecast in table 1 shows that excluding the impact of the future schools programme (Raglan Only) the Authority forecasts to borrow up to an additional £15.9m in 2014/15.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

It should be noted that as a result of this strategy that borrowing costs are expected to rise in the medium/long term without further future schools. Should the balance of the £80m future schools programme be approved they will rise significantly further.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK

- UK public and private sector pension funds (except your local Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

The Authority has historically raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to consider other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Authority holds £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2014/15, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount in order to achieve an overall saving or reduction in risk. The Authority is unlikely to take advantage of this due to its need to maintain or increase its existing level of borrowing.

Investment Strategy

The Authority holds a varying balance of invested funds, representing balances and reserves held plus income received in advance of expenditure. In the past 12 months, the Authority's investment balance has ranged between £5 and £28 million with an average investment balance of £16 million. Investment levels are expected to reduce in the forthcoming year as the capital programme progresses.

Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority may invest its surplus funds with any of the counterparties in table 3 below, subject to the cash and time limits shown.

Table 3 - Investment Counterparties - Specified Investments

Counterparty / Instrument	Instrument limit of portfolio	Counterparty limit of portfolio	Country Limit	Group Limit	Time Limit (Over 1 Year = Non-Specified)
UK Central Government including Debt Mgt Account Deposit Facility, Gilts and T Bills, irrespective of credit ratings.	100%	100%	N/A	N/A	5 Years
Any investment with UK Local Authorities (irrespective of credit rating)	100%	Lower of £7.5m or 15% of total investments at the time of deposit	N/A	20%	2 Years
Investments with Banks, Building Societies, Other Organisations and Securities whose lowest published rating from Fitch, Moody's and Standard and Poor's is A- As above but A As above but A+	75% of total investments at the time of deposit For Non-UK 50% of total investments at time of deposit	Lower of £7.5m or 15% of total investments per counterparty at the time of deposit for term deposit element. For instant call accounts – a limit of £1.5m will apply if total investments fall below £10m	N/A	15% of total investments at the time of deposit Also limit for total of Negotiable Instruments held in Brokers nominee accounts: 30% per Broker	1 Year 18mths 2 Years
Deposits with unrated UK Building Societies which have been assessed by our Treasury advisers as comparable with the Building Societies that have an A- credit rating or higher	20% of total investments at the time of deposit	£1m	N/A	15% of total investments at the time of deposit	1 Year
Money Market Funds with a Constant Net Asset Value (CNAV) or Variable Net Asset Value if assessed by our Treasury advisers as being of high credit worthiness	50% of total investments at the time of deposit	10% of total investments rounded up to the next £m not exceeding 0.50% of MMF size or 2% for Government MMFs.	N/A	15% Under the Same Management	N/A
Pooled funds without credit ratings if assessed by our Treasury advisers	20% of total investments at the time of	£2m per issuer	N/A	20% of total investments	N/A

as being of high credit worthiness	deposit				
Investments with UK Registered Providers (e.g. Housing Associations) where lowest published credit rating is A- or higher	20% of total investments	£2m per issuer	N/A	15% of total investments	5 Years

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There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

In addition, the Authority may invest with organisations including Building Societies, Money market funds and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser. Arlingclose do quarterly reviews of MMFs, annual reviews of building societies and regularly review pooled funds for their credit worthiness. This information is made available to the Authority.

Investment vehicles with the counterparties detailed in the table above are all considered to be Specified Investments with the exception of those investments with a maturity of above 12 months.

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £18 million on 31st March 2014. Available reserves include the Council Fund balance and earmarked reserves that are not ring-fenced by legislation, excluding Schools reserves, HRA balances and capital receipts.

Our investment balances are expected to be in the order of £0 to £10m during 2014/15 so the investment limits above should restrict the loss in the case of a single default to approximately 8% of available reserves.

A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes.

Current Account Bank: At the start of the 2013/14 financial year the Authority's current accounts were held with the Co-operative bank. The Co-operative's rating meant that the Authority would not consider it as an investment counterparty but continued to use the bank as a current account provider, keeping balances held overnight as close to nil as practical.

There were a number of key events during the year which heightened the risk of banking with the Co-operative so further precautions were taken as per advice issued by Arlingclose, 'banking with lower rated institutions'. As part of this the Authority set-up a contingency current account with Barclays.

The Co-operative remains a weakly capitalised bank and they are showing no ongoing commitment to the local authority sector. Therefore the Authority made a decision to start an immediate tender process for a new banking provider.

Following the competitive tender exercise, Barclays were appointed as the Authority's main banking provider and all efforts are being made for a complete transition to the new account in time for the commencement of the 2014/15 financial year.

Barclays is currently rated above the minimum A- rating in table 2. Should the credit ratings fall below A-, the Authority will review its use of the Barclays account in conjunction with its Treasury advisors and may chose to reduce overnight balances to nil.

Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and Welsh Government and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Building Societies: The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. 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, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. The requirement in this Treasury Strategy for Money market funds to have AAA ratings has been removed following EU proposals to stop money market funds from having credit ratings although at the time of writing credit ratings are still in use.

Other Pooled Funds: Table 1 above indicates that the Authority will continue to have substantial cash balances available for investment over the medium term. It will therefore consider using pooled funds containing bonds, equity and property assets 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.

Other Organisations: The Authority may also invest cash with other organisations, for example by making loans to small businesses. 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 adviser.

Risk Assessment and Credit Ratings: The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used as a key measure of credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria as in table 3 above 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.

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.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher or those reviewed by the Authority’s Treasury team and the Authorities treasury advisors and deemed to be of equivalent credit worthiness based on other market measures.

MMF’s will continue to be ‘specified investments’ until such point that regulatory change removes the underlying AAA credit rating. At that point they would require re-assessment by our advisers to be classified as ‘specified’ as of high credit quality.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as some pooled fund; and investments with bodies and schemes not meeting the definition on high credit quality.

The Authority limits its total Non-specified Investment balance to £6m at any one time.

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	Existing Level 31.12.13 £m	2013/14 Approved £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Upper limit on fixed interest rate exposure on debt	82.7	83.6	108.0	111.0	114.0	118.0
Variable Interest Rate exposure on Debt	13.5					
Variable Interest Rate exposure on Investments	13.0					
Upper limit on Net Variable Interest Rate Exposure on Debt & Investments	0.5	45	45	45	45	45

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Fixed Rate Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %	Estimated Level at 31/03/14 % - £m	Lower Limit for 2014/15 %	Upper Limit for 2014/15 %
Under 12 months – LOBO's	0	50	21.46% - £13.6m	0	50
Under 12 months – Other			13.40% - £8.5m	0	
12 months and within 24 months	0	40	2.80% - £1.8m	0	40
24 months and within 5 years	0	45	11.51% - £7.3m	0	45
5 years and within 10 years	0	30	14.66% - £9.3m	0	30
10 years and above	0	100	36.17% - £22.9m	0	100

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested in maturities over 364 days will be:

Upper Limit for total principal sums invested over 364 days	**2013/14 Approved £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Total	6.0	6.0	6.0	6.0	6.0	6.0

Estimates of Capital Expenditure

The actual capital expenditure (excluding vehicle leasing) that was incurred in 2012/13 and the estimates of capital expenditure to be incurred for the current year and future years that are recommended for approval are:

	2012/13 Actual £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Capital Expenditure	21.7	23.6	17.8	6.7	5.5	5.4

The estimate of capital expenditure for the 2013/14 and 2014/15 financial years includes allowance for slippage of expenditure from the 2013/14 capital programme that was forecast at month 8 capital monitoring. The figures above do not include capital expenditure relating to vehicle leasing.

As stated in the Capital Programme Budget Proposals the medium term programme has been drafted, and a programme constructed for the next four years. There will be opportunity for the programme to be reviewed annually.

Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2012/13 are:

	2012/13 Actual %	**2013/14 Estimate %**	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**
Ratio of financing costs to net revenue stream	5.80	5.79	6.36	5.95	5.90	5.89

The estimates of financing costs include current commitments and the proposals in this budget report and are based on the actual and anticipated borrowing, net of investments.

Capital Financing Requirement

Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2013 are:

	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Financing Requirement	111.3	120.5	115.8	114.1	112.4	110.7

The Capital Financing Requirement measures the authority's underlying need to borrow for capital purposes. In accordance with best professional practice, Monmouthshire County Council does not associate borrowing with particular items or types of expenditure, other than under its current policy for determining its Minimum Revenue Provision. The authority has an integrated treasury management strategy (last approved on 28th February 2013 by Council) and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

The Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be drawn between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes a key indicator of prudence where Net External Borrowing does not, except in the short term exceed the total of Capital Financing Requirement. This is the case for the preceding year plus the estimates of any Capital Financing Requirement for the current and next two financial years.

Net external borrowing is the borrowing budgeted to finance the capital program (Gross External borrowing) offset by the levels of cash and investments.

	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Net External borrowing	74.5	91.9	80.4	67.1	62.5	59.7
Gross External borrowing	82.3	96.4	107.6	111.0	114.4	117.8
Capital Financing Requirement	111.3	120.5	115.8	114.1	112.4	110.7

The Head of Finance, as the Authority's S151 officer, reports that the Authority had no difficulty meeting this requirement in 2012/13, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Authorised Limit for External Borrowing

In respect of external debt, it is recommended that the Council approves the following Authorised Limit for its total external debt gross of investments for the next four financial years.

	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	108.3	122.4	134.6	134.0	137.4	140.8
Other long term liabilities	2.8	3.0	2.6	2.6	2.6	2.6
Total	**111.1**	**125.4**	**137.2**	**136.6**	**140.0**	**143.4**

These limits separately identify borrowing from other long-term liabilities. The Council is asked to approve these limits and to delegate authority to the Head of Finance, within the total limit for any year, to effect movement between the separately agreed limits of borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Audit Committee or Council at the next opportunity following the change.

These limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely, prudent but not worse case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Operational Boundary for External Debt

The Council is also asked to approve the following Operational Boundary for external debt for the same period.

	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	84.3	98.4	113.6	113.0	116.4	119.8
Other long term liabilities	1.4	1.3	1.1	1.1	1.1	1.1
Total	**85.7**	**99.7**	**114.7**	**114.1**	**117.5**	**120.9**

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in-year monitoring by the Head of Finance. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is asked to delegate authority to the Head of Finance, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limit. Any such changes will be reported to the Audit Committee or Council at the next opportunity following the change.

The Council's actual external debt at 31 March 2013 was £85.7 million, comprising £84.3 million borrowing and £1.4 million other long-term liabilities. It should be noted that the actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2014/15 would be the statutory limit determined under section 3(1) of the local Government Act 2003.

Incremental impact of new capital investment decisions on Council Tax

A key measure of affordability is the incremental impact on the Council Tax, and the Council should consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

The incremental impact works on the basis that supported borrowing is funded through Revenue Support Grant. The calculation is therefore determined by establishing the revenue impact of:

- Unsupported borrowing – in terms of interest payments and the statutory Minimum Revenue Provision (MRP)
- Any revenue savings or costs that have been identified and that will result from capital schemes being delivered

The current capital budget proposals, using current information available, would have the following impact:

	2012/13 Actual £ p	2013/14 Estimate £ p	2014/15 Estimate £ p	2015/16 Estimate £ p	2016/17 Estimate £ p	2017/18 Estimate £ p
Effect on Band D Council Tax	18.30	23.38	17.33	1.92	1.91	1.91

The notable incremental impact in 2014/15 is due to the high level of capital works schemes funded by unsupported borrowing.

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed every three months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is assessed at the contract tender stage by comparing to other market leaders and their historical track record. It is then monitored by on-going interaction with internal Treasury personnel. The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically.

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

Financial Implications

The budget for investment income in 2014/15 is £25,000, based on an average investment portfolio of £5 million at an interest rate of 0.50%. The budget for debt interest paid in 2014/15 is £3.7 million, based on an average interest rate of 4.1%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, the S151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable	Debt interest costs will initially	Increases in debt interest costs

loans instead of long-term fixed rates	be lower	will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Annex A - Arlingclose Economic & Interest Rate Forecast [December] 2013

Underlying assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.1%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	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
Arlingclose 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 rate													
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
Arlingclose 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 rate													
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
Arlingclose 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 yield													
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
Arlingclose 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 yield													
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
Arlingclose 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 yield													
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
Arlingclose 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 yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose 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

Annex B - Existing Investment & Debt Portfolio Position

	31/12/2013 **Actual Portfolio** **£m**
External Borrowing:	
PWLB – Fixed Rate	44.0
PWLB – Variable Rate	15.3
Local Authorities	23.3
LOBO Loans	13.6
Total External Borrowing	**96.2**
Other Long Term Liabilities:	**1.4**
Total Gross External Debt	**97.6**
Investments:	
Managed in-house	
Short-term investments	13.0
Total Investments	**13.0**
Net Debt	**84.6**

Annex C - MRP Statement 2014/15

The Welsh Government's Guidance on Minimum Revenue Provision (issued in 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 Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

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

Note: This does not preclude other prudent methods.

<u>MRP in 2014/15:</u>

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 Authority chooses).

The MRP Statement will be submitted to Council before the start of the 2014/15 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 Authority at that time.

The Authority will apply Option 2 in respect of supported capital expenditure funded from borrowing and Option 3 in respect of unsupported capital expenditure funded from borrowing. There are 2 calculation methods which are available within option 3.

- The equal instalment method and
- The annuity method – whereby the MRP is the principal element for the year of the annuity required to repay the capital expenditure over the life of the asset

The equal instalment method will tend to be the default calculation, unless the borrowing involves an annuity aspect.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the CIPFA Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT 2014/15

1. INTRODUCTION AND BACKGROUND

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

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

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

- 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 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to Head of Finance (S151 officer), who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and they will receive the mid year report on Treasury Management activities.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 This 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 their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

As CIPFA states the policy statement should also include the Council's high level policies for borrowing and investments:

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 Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

3. Approach to Risk Management

3.1 This section identifies the risks that the Council faces as a result of it undertaking treasury management activities.

Liquidity risk
Credit (or counterparty) risk
Interest rate risk
Inflation rate risk
Exchange rate risk
Market risk
Refinancing risk
Procedural risk
Legal and regulatory risk

The Council manages these down to an acceptable level within the regulatory framework through the consideration and application of its Treasury Strategy and appropriate monitoring against agreed prudential indicators and limits.