Appendix 1

FLINTSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT STRATEGY

2014/15

CONTENTS

Treasury Management Strategy Report 2014/15

The Council is recommended to:
- **approve the Treasury Management Strategy for 2014/15**
- **approve the Treasury Management Indicators for 2014/15**

1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council 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 March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

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

The successful identification, monitoring and control of risk are central to the Council's treasury management strategy as the Council 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.

2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, November 2013.

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is 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, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

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. The Federal Reserve did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook: The likelihood of banking failures has diminished, but remains a significant risk. Regulatory changes in the UK, US and Europe are underway to move away from the bank bail-outs of previous years (e.g. Lloyds Banking Group and RBS in 2008) to bank resolution regimes in which shareholders, bond holders and unsecured creditors are the first port of call to re-capitalise an institution via bail-in. This is already apparent to holders of subordinated debt issued by the Co-operative Bank, which will suffer a haircut and conversion to alternative securities and/or equity in the bank's liability management exercise. 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 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.

Arlingclose 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.

Table 1: Interest rate forecast

	Bank Rate	3 month LIBID	12 month LIBID	25-year gilt yield
Q1 2014	0.50	0.45	0.90	3.35
Q2 2014	0.50	0.45	0.95	3.40
Q3 2014	0.50	0.50	0.95	3.45
Q4 2014	0.50	0.55	0.95	3.50
H1 2015	0.50	0.55	1.00	3.55
H2 2015	0.50	0.75	1.05	3.60
H1 2016	0.50	0.75	1.15	3.75
H2 2016	0.50	0.75	1.25	3.95

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 4.3%.

3.0 Local Context

As at 31st December 2013 the Authority had £172.1m of long term borrowing and £59.7m of investments. This is set out in further detail in section 4. Forecast changes in these sums are shown in the balance sheet analysis in the table below.

Table 2: Balance Sheet Summary and Forecast

*	31.3.13 Actual £m	31.3.14 Estimate £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m
Non-HRA CFR	159	163	169	209	216
HRA CFR	26	25	24	24	23
Total CFR	**185**	**188**	**193**	**233**	**239**
Less: Other long-term liabilities *	-8	-8	-8	-8	-8
Borrowing CFR	**177**	**180**	**185**	**225**	**231**
Less: External borrowing **	-172	-172	-172	-172	-172
Internal (over) borrowing	**5**	**8**	**13**	**53**	**59**
Less: Usable reserves	-63	-60	-31	-24	-22
Less: Working capital	3	3	3	3	3
Investments (or New borrowing)	**55**	**49**	**15**	**-32**	**-40**

* finance leases and PFI liabilities that form part of the Authority's debt
** shows only loans to which the Authority is currently committed and excludes optional refinancing

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 current strategy is to maintain borrowing below their underlying levels, sometimes known as internal borrowing.

The table shows the Authority's CFR increasing steadily until 2015/16, this is linked with the capital programme which increases sharply in 2015/16 due to the 21st century schools building programme. The level of reserves the Authority has is expected to fall in 2014/15 following the implementation of the Single Status Agreement. The combination of the increase in capital expenditure and a reduction in reserves, results in, an expected reduction in investments in 2014/15, and a projected new borrowing requirement in 2015/16.

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.

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4.0 Current and Expected Treasury Portfolios

Current portfolio

The Council's treasury portfolio as at 31st December 2013 was as follows:

Table 3: Current Treasury Portfolio

	Principal amount £m	Interest rate %
Investments:		
Call accounts	6.0	0.57
Money market funds	12.6	0.41
Short-term deposits	37.3	0.61
Long-term deposits	2.0	0.95
Landsbanki (Iceland)	1.8	
Total Investments	**59.7**	**0.57**
Borrowing:		
Short-term loans	-	-
Long-term PWLB loans (fixed)	143.16	5.86
Long-term PWLB loans (variable)	10.00	0.55
Long-term market loans (LOBOs)	18.95	4.53
Total Borrowing	**172.11**	**5.42**
Net Borrowing	**114.21**	**7.85%**

Expected changes in portfolio

Current cash flow forecasts show net borrowing increasing to £126m by 31st March 2014, as borrowing is expected to remain at this same level but investments reduce. Net borrowing will further increase during 2014/15, when the single status agreement is implemented and the reserve created specifically is used.

Budget implications

The budget for investment income in 2014/15 is £195k, based on an average investment portfolio of £39m at an average interest rate of 0.50%. The budget for loan interest paid in 2014/15 is £9.3m, based on an average debt portfolio of £172.11 million at a weighted average interest rate of 5.4%. If levels of investments borrowing, and interest rates differ from those forecast, performance against budget will be correspondingly different.

5.0 Investment Strategy

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £57.9 and £83.3 million.

Both the CIPFA Code and the WG Guidance require the Council 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 Council'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.

<u>Investment criteria and limits</u>
The Council may invest its surplus funds with any of the counterparties in the table below, subject to the monetary and time limits shown.

Table 4: Investment criteria and limits

	Fitch	**Moody's**	**S & P**	**Cash Limit**	**Time Limit**
Banks, Building Societies, other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years*
	AA+	Aa1	AA+		5 years*
	AA	Aa2	AA		4 years*
	AA-	Aa3	AA-		3 years*
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m each	1 year
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies without credit ratings				£1m each	1 year
Money Market Funds[1] and similar pooled vehicles				£7m each	N/A
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities[2]				£7m each	5 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is:	A-	A3	A-	£7m each	5 years
UK Registered Providers of Social Housing without credit ratings or those whose lowest published long-term credit rating is:	BBB-	Baa-	BBB-	£1m each	1 year
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser				£1m each	3 months
				£1m each	1 year
				£100k each	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

[2] as defined in the Local Government Act 2003

* but no longer than 2 years in fixed-term deposits and other illiquid instruments

To manage the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

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 and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

<u>Current account bank</u>
The Council's current accounts are held with NatWest Bank plc, which currently meets the above credit rating criteria. During the year should its rating not meet the above criteria he Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

<u>Building societies</u>
The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Council will 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.

<u>Money market funds</u>
Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. 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 Council.

Investments in money market funds involve the acquisition of share capital, and are therefore counted as capital expenditure under WG regulations. However, since withdrawals from funds count as capital receipts, these will be used to fund the capital expenditure, leaving no overall impact on the Council's capital programme.

Registered Providers

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

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.

Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

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

Risk assessment and credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council'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 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 rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

<u>Other information on the security of investments</u>

The Council 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 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 above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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 Council'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.

<u>Specified investments</u>

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 Council 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.

<u>Non-Specified Investments</u>
Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments 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, such as money market funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 5 below.

Table 5: Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£10m
Total shares in money market funds	£30m
Total investments without credit ratings or rated below A-	£10m
Total non-specified investments	£50m

<u>Approved Instruments</u>
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

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.

<u>Liquidity management</u>
The Council uses purpose-built cash flow forecasting software 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 Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Planned investment strategy for 2014/15

The economic climate improved slightly during 2013/14 and several longer term investments were made.

However, following discussions with the Council's treasury management advisors after their review of building society risk, the focus has turned away from building societies and returned to placing money "on call" with banks, depositing with other local authorities and extensive use of Money Market Funds.

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements, in particular the expectancy to meet single status and equal pay obligations during the 2014/15 financial year.

The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access money market funds and bank deposit accounts will be the main methods used to manage short-term cash. It is estimated that about 35% of surplus monies will be short term for cash flow purposes, although this may vary depending on changes to the interest rate yield curve.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks. It is estimated that about 55% of surplus funds will be medium term. However, again this may vary depending on changes to the interest rate yield curve.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments. However, in the current economic and financial environment it is likely that only a small percentage, about 10% will be invested longer term, probably over two years in fixed term deposits or callable deposits.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk.

6.0 Borrowing Strategy

The Council currently holds £172.11m of long-term loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in section 3 shows that the Council does not anticipate undertaking any long term borrowing during 2014/15.

The Council'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 the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 instead.

By doing so, the Council is able to reduce net borrowing costs (despite forgone 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 internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise. Arlingclose with assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council 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

In addition, the Council may borrow for short periods of time (normally for up to one month) to cover unexpected cash flow shortages.

<u>Sources of borrowing</u>
The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- Uk local authorities
- any institution approved for investments above
- any other bank or building society approved by the Prudential Regultaion Authorityto operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

<u>Planned borrowing strategy for 2014/15</u>
The Head of Finance will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2013.

- To effect any borrowing that maybe required in 2014/15 at the cheapest cost commensurate with future risk based on interest rate forecasts.

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.

- Continue to monitor options for debt-restructuring and debt re-payment.

The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Cabinet via the Audit Committee.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators below.

7.0 Policy on Use of Financial Derivatives

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions 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.

8.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

Interest rate exposures

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

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposures	£200m	£200m	£200m
Upper limit on variable interest rate exposures	£40m	£40m	£40m

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 borrowing

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

	Lower	Upper
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	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 Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on total principal invested beyond year end	£10m	£10m	£10m

Any long term investments carried forward from previous years will be included in each years limit.

Borrowing limits
The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2014/15	2015/16	2016/17
Operational boundary – borrowing Operational boundary – other long-term liabilities Operational boundary – TOTAL	£198m £17m £215m	£233m £18m £251m	£243m £19m £262m
Authorised limit – borrowing Authorised limit – other long-term liabilities Authorised limit – TOTAL	£218m £17m £235m	£253m £18m £271m	£263m £19m £282m

9.0 Other Matters

The WG Investment Guidance requires the Council to note the following three matters each year as part of the investment strategy:

Treasury Management Advisers
The Council's treasury management adviser, Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules

Investment training
The needs of the Council's treasury management staff for training in investment management are assessed 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 of Money Borrowed in Advance of Need
The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Head of Finance under delegated powers may borrow in advance of need if it is within forward approved Capital Financing Requirement estimates, and if there is a clear business case for doing so.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. The Council would not look to borrow more than 12 months in advance of need.

The Council will only invest money borrowed in advance of need for known debt maturities or to finance the borrowing requirement for the year concerned.

Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial 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 periods.	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer periods.	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 loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing if debt rescheduling costs weren't prohibitive	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

APPENDIX A – DEBT MATURITY PROFILE