

**2011/12 TREASURY MANAGEMENT STRATEGY
(Report by the Head of Financial Services)**

1. INTRODUCTION

- 1.1 This Treasury Management Strategy ensures that the Authority has clear objectives for the management of its borrowing and investments. It is also needed to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management **Code** of Practice, which is required by the Council's Code of Financial Management.
- 1.2 The Department for Communities and Local Government (DCLG) issued new **Guidance** on local authority investments, which applied from April 2010. It reiterated the expectation in the existing 2004 guidance that Council approves an investment strategy before the start of each financial year.
- 1.3 The **Guidance** emphasises that priority must be given to the security (protecting the capital sums from loss) and liquidity of investments (keeping enough cash readily available) rather than the interest earned. The **Code** covers the same point by requiring the effective management and control of risk.
- 1.4 When the Government removed its limits on capital expenditure levels some years ago it introduced the concept of a Prudential Code which focussed attention on a set of indicators relating to capital expenditure, external debt and treasury management. Its purpose is to demonstrate that the Council's capital expenditure plans are affordable and it provides a set of limits, to be complied with, and indicators to be monitored during the relevant year. These Prudential Indicators are an annex to the Treasury Management Strategy.
- 1.5 The proposed Strategy (attached as Annex A) complies with the **Code** and the **Guidance**.
- 1.6 The Code requires the Council to nominate where the responsibility for scrutinising Treasury Management will be undertaken. It is proposed that this remains with the Economic Well-being Overview and Scrutiny Panel, as at present.
- 1.7 The member Treasury Management Advisory Group discussed the **Code** and **Guidance** and their comments have been incorporated in this Strategy. Overview and Scrutiny will consider the report on the 10 February and their comments will be available to the Cabinet. Council is then required to formally approve the Strategy and associated

indicators.

2. RECOMMENDATION

- 2.1** Cabinet is requested to recommend to Council that it approves
- a) The Treasury Management Strategy for 2011/12
 - b) The Treasury Management and Prudential Indicators for 2011/12

BACKGROUND PAPERS:

Background files in Accountancy Section: Treasury Management Reports
Reports on the 2011/12 Budget and Medium Term Plan to Cabinet and Council

CIPFA's Treasury Management in the Public Services Code of Practice 2009

ODPM Guidance on Local Government Investments March 2004

CLG Guidance on Local Government Investments November 2009

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TREASURY MANAGEMENT STRATEGY 2010/11

Treasury Management is:

- Ensuring the Council has sufficient cash to meet its day-to-day obligations
- Borrowing when necessary to fund capital expenditure, including borrowing in anticipation when rates are considered to be low
- Investing any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

This Strategy explains how Treasury Management will be carried out in Huntingdonshire. It meets the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (2009), as required by the Council's Code of Financial Management, and the Government's Guidance on Local Government Investments (2004) and draft guidance (2009)

BACKGROUND

The bank base rate fell to 0.5% in March 2009 and has remained at that level ever since; economists generally agree that it will inevitably rise but significantly disagree on by how much and how soon!

Against the background of low interest and reducing revenue and capital balances the Council has sought to maximise the returns from its investments whilst minimising the risks of investing with a borrower that is, or may become, unable to repay. It therefore adopted a strategy for 2010/11 that did not concentrate its investments with the Government's Debt Management Office which are effectively risk-free, as they are backed by the Government, but with a significantly below base interest rate, and instead concentrated on highly rated institutions and the larger Building Societies. At the same time investments in "liquidity accounts" which offer repayment the same day were maximised to further reduce risk.

The 2010/11 Strategy allowed for borrowing in anticipation of need to fund capital expenditure although that option has not so far been used this year.

CURRENT POSITION

The Council's position as at 31 December 2010 was:

INVESTMENTS	Principal Amount £m	Average Interest Rate %
Investments - maturing 2010/11	21	1.3
Investments - maturing later	10	4.4
Total	31	2.3
Short term Debt	0	
Long term Debt	10	3.9
Total	10	3.9
Net Investments	21	1.6

THE COUNCIL'S FINANCIAL STRATEGY

The table below, from the Council's Budget/MTP report, shows:

- how revenue reserves will fall to the basic level needed as a contingency against unexpected events,
- that capital reserves have effectively been used to fund capital expenditure,
- how borrowing will be required to meet planned capital expenditure. When this is carried out will depend on how low interest rates are perceived at any point in time. Hence "must" borrow levels reflect using other funds to delay until the last moment whilst "may" borrow levels show maximum borrowing in anticipation.

FORECAST	2010/11 £M	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M
Revenue Reserves	13.0	9.4	6.6	5.0	3.3	3.0
Provision for repaying loans	0.2	0.9	2.0	3.3	5.0	6.9
Earmarked Reserves ❶	5.4	4.4	3.5	3.5	3.5	3.5
Total Reserves (EOY)	18.6	14.7	12.1	11.8	11.8	13.4
Planned Capital Expenditure	7.1	11.9	3.3	3.0	2.4	2.8
Funded from:						
new capital receipts	0.3	0.3	0.3	0.3	0.3	0.3
borrowing	6.8	11.6	3.0	2.7	2.1	2.4
Borrowing (accumulated)	18.0	29.6	32.6	35.3	37.4	39.8
To be funded from borrowing ❷						
Already borrowed	10.0	10.0	10.0	10.0	10.0	10.0
"Must" borrow ❸	0.0	14.9	15.5	13.5	15.6	16.4
"May" borrow ❹	35.1	29.8	33.9	38.0	42.3	46.7
Budget ❺						
Net Interest	-0.3	-0.1	0.2	0.6	0.8	0.9
Borrowing repayments	0.2	0.7	1.1	1.3	1.6	1.9

Notes

- ① includes specific earmarked reserves (e.g. S106 and R&R Funds)
- ② takes account of fact that the £5m of the 10M borrowed in anticipation is invested until December 2012 and £5M to December 2013.
- ③ 2010/11 based on 2010/11 budget and MTP. Remaining figures assume approval of 2011/12 budget and MTP. All exclude the £10M already borrowed.
- ④ Based on no further borrowing in anticipation
- ⑤ Forecast
- ⑥ Includes £11.2M funded from borrowing pre 2010/11.

BORROWING - CASH FLOW

In addition to the fundamental movements described above there are day-to-day impacts due to the flow of funds into and out of the Council. For instance, the dates on which the County Council is paid its portion of the council tax will be different to the days the money is physically received from Council Tax payers. These cash flows will sometimes leave the Council with several million pounds to borrow or to invest overnight or for a few weeks pending the next payroll or precept date.

Authorities are permitted to borrow short term for this purpose and funds are obtained from whoever is quoting the lowest rate for the period required. If rates are particularly high on a particular day then the sum may be borrowed overnight to see if rates are lower the following day for the remainder of the period required.

BORROWING - CAPITAL

The amount and period of capital borrowing up until March 2012 will be dependent upon the actual levels of interest rates and how high or low they are perceived to be in a long term sense.

BORROWING – IN ANTICIPATION

Although further borrowing is not **required** until part way through 2011/12 to fund the Capital Programme, effective treasury management requires a view to be taken on whether long term rates are judged to be low, even if the funds have then to be invested until the money is required, as this could be the lowest overall cost for the Council. For example, if long term rates fell to 4% we would be likely to move towards our “may” borrow limits as soon as possible whilst if long term rates were 5.5% and it were perceived that future rates would be lower, only the “must” borrow limits would be followed and, even then, the sums would be borrowed for a short period rather than locked into a long term arrangement.

Such early borrowing is permitted if it is for planned capital expenditure. The definition of planned expenditure is not precise and has therefore been discussed with our external auditor who is comfortable with the interpretation of it being amounts included in our approved MTP. Hence, the current figure is £35.1M but this will reduce to £29.8M for next year once the new MTP is approved in February.

However since such amounts will need to be invested temporarily until spent, the Council faces the risks of loss of the invested sum if the wrong counterparty is chosen and that borrowing rates may fall in the intervening period. The counterparty risk is considered within the investment section below and a range of interest rate possibilities would be considered before borrowing to minimise the chance of adverse movements removing the anticipated benefit.

Rates for long term PWLB money have been relatively high for many months and the Government also increased them in the Comprehensive Spending Review by 0.65%. It is therefore unlikely that there will be any early borrowing particularly as the revenue budget would have to 'take the hit' of the borrowing rates being higher than the temporary investment rate in the short to medium term. However history has shown that violent fluctuations can happen and so there needs to be the freedom to act if circumstances significantly change.

As far as possible the Council's revenue reserves will be used to temporarily fund capital spending and thus delay long-term capital borrowing unless there is a significant change in the interest rate structure.

BORROWING - PROFILE

It is best practice to pool all funds and model future cash flow before determining the amounts that should be borrowed or invested and for how long. In doing this account will be taken of the provision that the Council is required to build up each to fund the repayment of debt.

The Council will be balancing two different aspects when deciding on the period it will borrow for.

- **Stability.** Avoid the risk of market movements affecting the borrowing cost adversely. To do this the logical option is to borrow the money for as long as needed.
- **Lowest Cost.** Minimise the overall cost of borrowing which, at the present time, might result in very short borrowing because of the very low interest rates available. However, future rates may rise significantly meaning that it was better to have paid more initially and borrowed longer.

The logical result is to spread the risk by borrowing for a range of periods. However, given the Council's current financial position it may be that, until interest rates have returned to normal relativities or there is sufficient certainty that they will do so, the Council should borrow from its own revenue reserves and or borrow short term for rates that are currently under 1%.

Much of our borrowing will tend to be from the Public Works Loans Board (PWLB) which is a Government Agency providing funds to local authorities at interest rates linked to the cost of central government borrowing. Commercial bodies have become more involved in lending to local authorities though their products are generally for shorter periods and often include embedded options. The most common is a LOBO, where the lender retains an option to

increase the interest rate after a number of years and the borrower has the right to repay if the new rate is not acceptable.

INVESTMENTS - CATEGORIES

The guidance on Local Authority Investments categorises investments as 'specified' and 'non-specified'.

Specified investments are expected to offer relatively high security and/or liquidity. They must be:

- in sterling (avoiding exchange rate fluctuations) **and**,
- due to be repaid within 12 months (minimising capital value fluctuations on gilts and CDs and minimising the period within which a counterparty might get into difficulty) **and**,
- **not** defined as capital expenditure in the capital finance regulations 2003 (e.g. corporate bonds and equities) **and**,
- with a body that is of high credit quality or it is made with the UK Government, or a local authority. (minimising the counterparty risk)

These include time-deposits for up to 1 year with building societies and banks which the Council deems to have a high credit quality (see below), but it should be noted that early repayment, before the due date is rarely possible and may require a release fee.

Non-specified investments include longer deposits and other types of investment e.g. corporate bonds and equities.

The Council may use:

- Time Deposits of longer than 12 months with banks and building societies
- Corporate Bonds, if returns are clearly better than time deposits, but such investments will only be made following a risk assessment and consultation on the proposed limits, procedures and credit ratings with the Treasury Management Advisory Group. Use would be limited to Bonds that could be held to maturity thus avoiding fluctuations in capital value.
- Money market funds – these diversify investors' cash over a wide range of highly rated organisations and maturity dates, while allowing the investor to retain instant access to their cash.

INVESTMENTS – HIGH CREDIT QUALITY

The term 'high credit quality' is used in the CLG guidance to encourage local authorities to monitor other measures of an institution's creditworthiness rather than just relying on credit ratings

CIPFA has issued guidance on possible sources of additional information in order to assess the credit worthiness of counterparties which are referred to below.

Whilst the Council will take some account of such additional information the main criteria for judging credit quality will be:

- Short term credit ratings (Definitions in Appendix A)
- Long-term credit ratings for any investment over 1 year.
- The top 25 Building Societies irrespective of any credit rating they may hold. Building societies have a much higher proportion of their funds covered by retail savings so are less at the risk of market volatility and their regulatory framework and insolvency regime means that the Council's deposits would be paid out before retail depositors. Experience in recent years includes a number of examples of the Government negotiating takeovers of weak societies by strong ones. A number do not bother with credit ratings because they all have an eligibility certificate under the UK Government Credit Guarantee Scheme
- Reacting immediately to same day notifications from our treasury management advisors (Sterling Consultancy Services) of changes to credit ratings or "rating" watch" warnings. This will often result in the counterparty being immediately removed from our list unless the content of the rating agency report shows this would be inappropriate.
- Reacting immediately to any informal comments from our advisors in relation to market concerns.
- Credit Default Swap prices obtained from our advisors.
- The credit rating of the country of the institution. For example the Council does not currently include banks in Ireland, Portugal and Greece on its counterparty list.

Financial statements and the financial press will not be systematically reviewed because the resources required are not available and it is expected that our advisors will make informal comments if they become aware of any significant items that affect our counterparty list. They also review our counterparty list every month.

INVESTMENTS – SPREADING THE RISK

Credit quality can never be absolutely guaranteed so to further mitigate risks there is a need to spread investments in a number of ways:

- By counterparty where this includes any institutions that are linked in the same group
- By Country

These limits need to be a practical balance between safety and administrative efficiency and need to cope with the uncertainty of the amount of borrowing in anticipation. A table is therefore included in Appendix B which shows the limits for different levels of forward borrowing.

INVESTMENTS – PERIODS

Once a time deposit is made there is no requirement for the borrower to repay until the end of the agreed period. Thus a borrower who has a high credit rating on the investment day could be in serious financial difficulties in the future. As a result significant use is made of liquidity accounts which currently

give an attractive interest rate but also allow repayment of our investment the same day.

INVESTMENTS IN-HOUSE MANAGEMENT

All funds managed by external fund managers have been returned and so all future investments will be managed in-house.

Taking account of the Credit Quality and Spreading the Risk sections above Appendix B outlines the criteria for making investments.

There may be limited occasions, based on detailed cash flow forecasts, where some investments of more than a year might be made that do not relate to borrowing in anticipation.

Risk of counterparty failure can also be minimised by shortening the period of any time deposit. At the current time, partly reflecting the current interest rate structure, time deposits are generally kept below one month. The criteria also differentiates the duration of investments based on credit rating – the maximum duration of investments with building societies with a rating of BBB+ or lower and with no credit rating, will be 6 months.

Advantage is also being taken of liquidity accounts which are offering competitive rates for money on call i.e. it can be called back the same or next day if there was any concern about the institution.

The Council will need to approve a prudential indicator for the 'authorised limit for external debt'; which combines:

- temporary borrowing for cash flow purposes (£20M)
- long-term borrowing to fund capital expenditure of £40M (up to the £30M "may borrow" limit plus the £10M already borrowed)
- an allowance for other long-term liabilities, such as finance leases (£5M).

A maximum of **£65M** is therefore recommended.

ADVISORS

The Council appointed Sterling Consultancy Services as Treasury Management Advisors in January 2008, however responsibility for final decision making remains with the Council and its officers

The Advisor carries out the following role:

- advice on investment decisions,
- notification of credit ratings and changes,
- general information on credit quality and informal comment on particular institutions,
- advice on borrowing and opportunities to borrow early
- economic data and interest rate forecasts
- advice and guidance on relevant policies, strategies and reports,

- accounting advice,
- reports on treasury performance,
- training courses.

The quality of the service is controlled by regular contact between the Advisors and officers. A retendering exercise will be undertaken to appoint Advisors from July 2011.

MANAGEMENT

The Head of Financial Services and his staff will manage and monitor investments and borrowing.

The Treasury Management Advisory Group (TMAG) consists of three members of the Cabinet. They are kept informed of relevant issues and consulted on any significant issues.

REPORTING AND SCRUTINY

The CIPFA Code requires that the body responsible for approving the budget also receives at least two reports during the year on treasury management. Therefore the Council will receive a six month report on the performance of the funds and an annual report on the performance for the year.

The Code also requires the Council to identify the body that will be responsible for the scrutiny of treasury management to ensure that it receives the appropriate focus. This is the Economic Well-being Overview & Scrutiny Panel.

TRAINING

The needs of the Council's treasury management staff for training are assessed every 6 months as part of the staff appraisal process and additionally when the responsibilities of individual staff change.

The Code requires that Members charged with the governance of Treasury Management and those responsible for scrutiny have the necessary skills relevant to their responsibilities. A Member training event will be arranged during the year.

CHANGES TO THE STRATEGY

The strategy is not intended to be a strait-jacket but a definition of the upper limit of the level of risk that it is prudent for the Council to take in maximising the return on its net investments. Any changes that are broadly consistent with this Strategy and either reduce or only minimally increase the level of risk, are delegated to the Head of Financial Services, after consultation with the Treasury Management Advisory Group, where of any significance. All other changes to the strategy must be approved by the full Council.

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

The Council's Treasury Management and Prudential Indicators are attached at Appendix C. They are based on data included in the budget report and this Strategy. They set various limits that allow officers to monitor its achievement. These indicators must be approved by the Council and can only be amended by the Council.

APPENDIX A

Definition of Credit Ratings

	Rating	Definition	Examples of counterparties
Short term (Fitch)	F1	Shares rated in this category have the most solid solvency levels and the highest stock liquidity and enterprise value in the market.	Royal Bank of Scotland/NatWest (F1+) Coventry Building Society
	F2	Shares rated in this category have very good solvency levels and stock liquidity and enterprise value in the market.	Co-operative Bank Skipton Building Society
	F3	Shares rated in this category have a combination of good or adequate solvency levels and stock liquidity and enterprise value in the market.	Newcastle Building Society
Long-term (Fitch)	AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk . They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	United Kingdom
	AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk . They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	HSBC Bank
	AA-	The institution is at the lower end of very high credit quality	RBS/NatWest Nationwide
	A	High credit quality. 'A' ratings denote expectations of low credit risk . The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.	Coventry Building Society
	A-	The institution is at the lower end of high credit quality	Skipton Building Society

**IN-HOUSE FUND MANAGEMENT
(IF NO FURTHER BORROWING IN ANTICIPATION)**

Duration of investments	No investment shall be longer than 5 years. Maximum duration for a Building Society with a rating of BBB+ or lower, or no credit rating, is 6 months																
Types of investments	Fixed term Deposits Deposits at call, two or seven day notice Corporate bonds Money market funds																
Credit Ratings	Excluding Building Societies Short term rating F1 by Fitch or equivalent) Long-term rating of AA- by Fitch or equivalent if the investment is longer than 1 year.																
Maximum limits per counterparty (group), country or non-specified category	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">F1+ or have a legal position that guarantees repayment for the period of the investment</td> <td style="text-align: right; vertical-align: bottom;">£5M</td> </tr> <tr> <td style="padding-left: 20px;">F1</td> <td style="text-align: right; vertical-align: bottom;">£4M</td> </tr> <tr> <td style="padding-left: 20px;">Building Society with assets over £2bn in top 25 (Currently 10)</td> <td style="text-align: right; vertical-align: bottom;">£5M</td> </tr> <tr> <td style="padding-left: 20px;">Building Society with assets over £1bn if in top 25 (Currently 3)</td> <td style="text-align: right; vertical-align: bottom;">£4M</td> </tr> <tr> <td style="padding-left: 20px;">Building Society with assets under £1bn in top 25</td> <td style="text-align: right; vertical-align: bottom;">£3M</td> </tr> <tr> <td style="padding-left: 20px;">Liquidity (Call) Account with a credit rating of F1+ or with a legal position that guarantees repayment or a Building Society.</td> <td style="text-align: right; vertical-align: bottom;">£5M</td> </tr> <tr> <td style="padding-left: 20px;">BUT total invest with counterparty/group shall not exceed</td> <td style="text-align: right; vertical-align: bottom;">£8M</td> </tr> <tr> <td style="padding-left: 20px;">Money market fund AAA Credit rating</td> <td style="text-align: right; vertical-align: bottom;">£4m</td> </tr> </table> <p>Limit for Non-specified investments</p> <ul style="list-style-type: none"> - £10M in time deposits more than one year - £5M in corporate bonds - £10M in total <p>Country limits</p> <ul style="list-style-type: none"> - UK - unlimited - £5M in a country outside the EU - £10M in a country within the EU (excluding UK) - £20M in EU countries combined (excluding UK) <p>These limits will be applied when considering any new investment from 23 February 2011. Lower limits may be set during the course of the year or for later years to avoid too high a proportion of the Council's funds being with any one counterparty.</p>	F1+ or have a legal position that guarantees repayment for the period of the investment	£5M	F1	£4M	Building Society with assets over £2bn in top 25 (Currently 10)	£5M	Building Society with assets over £1bn if in top 25 (Currently 3)	£4M	Building Society with assets under £1bn in top 25	£3M	Liquidity (Call) Account with a credit rating of F1+ or with a legal position that guarantees repayment or a Building Society.	£5M	BUT total invest with counterparty/group shall not exceed	£8M	Money market fund AAA Credit rating	£4m
F1+ or have a legal position that guarantees repayment for the period of the investment	£5M																
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Building Society with assets under £1bn in top 25	£3M																
Liquidity (Call) Account with a credit rating of F1+ or with a legal position that guarantees repayment or a Building Society.	£5M																
BUT total invest with counterparty/group shall not exceed	£8M																
Money market fund AAA Credit rating	£4m																
Benchmark	LGC 7 day rate																

INVESTMENT LIMITS FOR INCREASES IN BORROWING IN ANTICIPATION			
	Level of Borrowing in Anticipation		Rating Constraints
	from	£5M	£11M
	to	£10M	£20M
SPECIFIED INVESTMENTS			
BUILDING SOCIETIES			
Assets over £2bn	£5M	£5M	
Assets over £1bn	£4M	£4M	
Rest of top 25 by assets	£3M	£3M	
BANKS & OTHER INSTITUTIONS			
F1+ or legal status	£5M	£5M	AA- if more than 1 year
F1	£4M	£4M	AA- if more than 1 year
LIQUIDITY ACCOUNTS			
Limit in liquidity account	£5M	£6M	F1+ or legal status
Limit with any other investments in institution	£8M	£9M	
NON-SPECIFIED INVESTMENTS			
Time Deposits over 1 year in total	£20M	£30M	
Corporate Bonds in total	£5M	£8M	Not yet determined
Total	£20M	£30M	
TERRITORIAL LIMITS			
UK	Unlimited		
EU (excluding UK)	£20M	£20M	
EU Country (other than UK)	£10M	£10M	
Any other Country	£5M	£5M	

**CIPFA Prudential Code for Capital Finance in Local Authorities
Prudential Indicators and Treasury Management Indicators for 2011/12**

CAPITAL EXPENDITURE

1. Actual and Estimated Capital Expenditure

	2009/10 Actual £000	2010/11 Forecast £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Gross	14.6	15.0	15.4	10.2	4.0
Net	11.6	7.1	11.9	3.3	3.0

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

The negative figures until 2010/11 reflect that the Authority was a net investor and that the net interest earned exceeded the small provision for the repayment of debt.

2009/10 Actual	2010/11 Forecast	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
-10%	-0.3%	3.1%	7.1%	9.8%

3. The impact of schemes with capital expenditure on the level of council tax

This calculation highlights the hypothetical impact on the level of Council Tax from changes to capital schemes (including their associated revenue implications) that are included in the budget/MTP.

The actual planned change in Council Tax is different because of the impact of significant non-capital variations, spending adjustments and the use of revenue reserves.

	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Increase	£1.72	-£6.88	-£0.62
Cumulative	£1.72	-£5.16	-£5.78

4. The capital financing requirement.

This represents the need for the Authority to borrow to finance capital expenditure. Whilst the Authority has revenue reserves it will not have to borrow for capital purposes but may do so:

31/3/10 Actual £M	2010/11 Forecast £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
11.2	18.0	29.6	32.6	35.3	37.4	39.8

5. Net borrowing and the capital financing requirement

'In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the Authority should make sure that net external borrowing (borrowing less investments) does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.'

As long as the Council's reserves are sufficient to cover any shortfall that might occur on the revenue budget there will be no borrowing for revenue purposes, other than in the short term.

Revenue reserves are forecast at the end of the year to be:

2011/12 £9.4M

2012/13 £6.6M

2013/14 £5.0M

This should be more than adequate to cover any potential problems as long as unidentified spending adjustments are found by targeted dates.

EXTERNAL DEBT

**6. The actual external borrowing at 31 March 2010
£10m**

7. The authorised limit for external debt.

This is the maximum limit for borrowing and is based on a worst-case scenario. It reflects the Treasury Management Strategy which allows the Authority to borrow up to £35.1m in 2010/11 (based on the 2010/11 Treasury Management Strategy) and up to an aggregate of £40m in 2011/12 to finance capital expenditure shown to be financed from borrowing in the Medium Term Plan period if it appears that long term rates are attractive. There is a provision for financing capital from leases. The remainder of the limit relates to temporary debt for Cash Flow Purposes.

	2010/11 Limit £M	2011/12 Limit £M	2012/13 Estimate £M	2013/14 Estimate £M
Short term	20.0	20	20	20
Long Term	35.1	40	44	48
Other long-term liabilities (leases)	5.0	5	5	5
Total	60.1	65	69	73

8. The operational boundary for external debt.

This reflects a less extreme position. Although the figure can be exceeded without further approval it represents an early warning monitoring device to ensure that the authorised limit (above) is not exceeded; it allows the management of the Council's day to day cashflow. The short term and long term elements of the operational boundary will be monitored separately.

	2011/12 Limit £M	2012/13 Estimate £M	2013/14 Estimate £M
Short term	15	15	15
Long term	40	44	48
Other long-term liabilities (leases)	5	5	5
Total	60	64	68

9. Adoption of the CIPFA Code

The Council adopted the 2001 edition of the CIPFA *Treasury Management Code of Practice*. Council will now adopt the 2009 edition of the Code

TREASURY MANAGEMENT INDICATORS

10. Exposure to investments with fixed interest and variable interest as a percentage of total investments. This indicator is set to control the Council's exposure to interest rate risk. Investments of less than 12 months count as variable rate.

	2011/12 Limit	2012/13 Estimate	2013/14 Estimate
Upper limit on fixed rate exposure	100%	100%	100%
Upper limit on variable rate exposure	100%	100%	100%

11. Borrowing Repayment Profile

The proportion of 2011/12 borrowing that will mature in successive periods. This indicator is set to control the Council's exposure to refinancing risk

The first table refers to temporary borrowing for cash flow purposes; 100% will mature in less than 12 months.

Whilst long-term borrowing will often be for more than 10 years there are interest rate scenarios that might require shorter term borrowing on a temporary basis. This is particularly relevant in the coming year if short term rates remain so low.

Cash flow borrowing	Upper limit	Lower limit
Under 12 months	100%	100%
Over 12 months	0%	0%

Funding capital schemes	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	60%	0%
10 years and above	100%	0%

12. Investment Repayment Profile

Limit on the value of investments that cannot be redeemed within 364 days i.e. by the end of each financial year. 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.

	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Limit on investments over 364 days as at 31 March each year.	18.7	13.1	10.1