Appendix 1

PETERBOROUGH CITY COUNCIL

The Prudential Code
&
Treasury Management Strategy
2014/15 to 2023/24

Including the Minimum Revenue Policy 2014/15

1. Introduction

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.2 Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

1.1.3 CIPFA defines treasury management 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."

1.2 Reporting requirements

1.2.1 The Council is required to receive and approve, as a minimum, three reports each year. These reports are to be scrutinised by the Audit Committee before being recommended to Council.

1.2.2 The Prudential Code and Treasury Strategy report will cover:

- the capital programme (including prudential indicators)
- a Minimum Revenue Provision (MRP) Policy
- the Treasury Management Strategy including treasury indicators; and
- an Investment Strategy

1.2.3 A mid-year Treasury Management Report will update members of the Audit Committee with the progress of the capital programme and amending prudential indicators as necessary.

1.2.4 Any revisions to the Treasury Strategy will need to be approved by Full Council.

1.2.5 An Annual Treasury Report will provide details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy presented alongside the Statement of Accounts.

1.3 Treasury Management Strategy for 2014/15

1.3.1 The strategy for 2014/15 will cover

- Policy on use of external advisors
- Capital programme and the Prudential Indicators
- MRP strategy
- Current treasury position
- Treasury Indicators
- Interest Rates
- Borrowing Strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- Investment Strategy
- Creditworthiness Policy
- Treasury Management Scheme of Delegation

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Treasury Management Advisors

1.4.1 The Council uses Capita Asset Services, as its external treasury management advisors who have a contract until December 2014.

1.4.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external advisors.

1.4.3 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2. Capital Prudential Indicators 2014/15 to 2023/24

2.1 The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.2 **Indicator 1** - Capital Expenditure - this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following nine financial years.

(1a) Capital Expenditure	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
Adult Social Care	*1.4*	0.3	1.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Chief Executives	*0.2*	0.7	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Communities	*3.4*	3.6	4.9	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Growth & Regeneration	*12.3*	25.0	35.8	26.2	15.0	12.0	8.9	7.6	7.6	7.6	7.6	7.6
Resources	*91.7*	83.7	124.9	115.8	43.5	11.9	8.2	5.5	4.5	5.2	5.4	5.4
Invest to Save	*2.7*	4.0	93.3	-	-	-	-	-	-	-	-	-
Total	***111.7***	**117.3**	**260.8**	**144.7**	**61.2**	**26.6**	**19.8**	**15.8**	**14.8**	**15.5**	**15.7**	**15.7**

2.3 The table below summaries the capital expenditure on the previous page and how it will be funded either from grants, contributions, or capital receipts with the remaining 'net financing need for the year' to be sourced via borrowing.

(1b) Capital Expenditure & Financing		***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
Capital Expenditure		*111.7*	117.3	260.8	144.7	61.2	26.6	19.8	15.8	14.8	15.5	15.7	15.7
Financed by:													
Capital receipts		*5.1*	*3.5*	*9.8*	*7.6*	*2.4*	*2.8*	*1.0*	-	-	-	-	-
Capital grants & contributions		*31.4*	*35.5*	*28.4*	*10.0*	*11.8*	*10.3*	*5.8*	*5.8*	*5.8*	*5.7*	*5.8*	*5.8*
Net financing requirement		***75.2***	**78.3**	**221.6**	**127.1**	**47.0**	**13.5**	**13.0**	**10.0**	**9.0**	**9.8**	**9.9**	**9.9**

2.4 The Invest to Save scheme, Renewable Energy projects and the Energy From Waste plant are included in the tables that detail total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings or avoid additional costs e.g. landfill tax. Therefore the borrowing costs associated with these projects will have no overall impact on the Council's MTFS position. The generated income / savings are detailed in previous pages of this MTFS.

2.5 **Indicator 2** - Capital Financing Requirement (CFR) - the CFR is the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet following the IFRS conversion in 2010/11. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

2.7 The following table shows the CFR estimates for the next ten financial years:

(2) Capital Financing Requirement	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
CFR B/fwd	*250.2*	316.1	384.4	594.1	705.5	734.6	729.5	723.6	714.1	703.1	692.9	682.2
Borrowing	*63.0*	64.2	116.4	111.4	29.1	(5.1)	(5.9)	(9.5)	(11.0)	(10.2)	(10.7)	(11.7)
Invest to Save*	*2.9*	4.1	93.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CFR C/fwd	*316.1*	384.4	594.1	705.5	734.6	729.5	723.6	714.1	703.1	692.9	682.2	670.5
Movement in CFR	***65.9***	**68.3**	**209.7**	**111.4**	**29.1**	**(5.1)**	**(5.9)**	**(9.5)**	**(11.0)**	**(10.2)**	**(10.7)**	**(11.7)**
Net financing requirement	*75.2*	78.3	221.6	127.1	47.0	13.5	13.0	10.0	9.0	9.8	9.9	9.9
Less MRP & other financing	*(9.3)*	(10.0)	(11.9)	(15.7)	(17.9)	(18.6)	(18.9)	(19.5)	(20.0)	(20.0)	(20.6)	(21.6)
Movement in CFR	***65.9***	**68.3**	**209.7**	**111.4**	**29.1**	**(5.1)**	**(5.9)**	**(9.5)**	**(11.0)**	**(10.2)**	**(10.7)**	**(11.7)**

** The cost of borrowing associated with this scheme will be offset by the income generated in accordance with the approved business case (see comment in 2.4)*

2.8 **Indicator 3** - Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

3) Ratio of financing costs to net revenue budget	***2012/13 Actual***	**2013/14 Est.**	**2014/15 Est.**	**2015/16 Est.**	**2016/17 Est.**	**2017/18 Est.**	**2018/19 Est.**	**2019/20 Est.**	**2020/21 Est.**	**2021/22 Est.**	**2022/23 Est.**	**2023/24 Est.**
Total ratio *	*5.2%*	*6.0%*	*7.1%*	*8.8%*	*10.2%*	*10.4%*	*10.5%*	*10.6%*	*10.6%*	*10.5%*	*10.6%*	*11.7%*

2.9 **Indicator 4** - Actual and estimates of the incremental impact of capital investment decisions on council tax.

2.10 The calculation of this indicator is based upon the estimated amount of the capital programme that is to be financed from borrowing.

2.11 The calculation is based on the interest assumptions for borrowing and MRP charges that have been included in the previous and this MTFS for the capital financing budget.

2.12 This indicator shows the incremental impact on the 'adjusted' council tax base.

(4) Incremental impact of capital investment decisions on Council Tax	***2012/13 Actual***	**2013/14 Est.**	**2014/15 Est.**	**2015/16 Est.**	**2016/17 Est.**	**2017/18 Est.**	**2018/19 Est.**	**2019/20 Est.**	**2020/21 Est.**	**2021/22 Est.**	**2022/23 Est.**	**2023/24 Est.**
Incremental change in capital financing budget between MTFS's on Band D Council Tax (£)	*(£71.88)*	(£31.55)	(£72.33)	(£128.45)	(£51.39)	(£23.23)	(£9.85)	£3.15	£11.33	£16.34	£23.57	£36.61

3. Minimum Revenue Provision (MRP) Policy

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

3.2. CLG Regulations require full Council to approve a MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. The Council is recommended to approve the following MRP statement:

Capital Expenditure Incurred	**MRP Methodology**
Historic debt liability and expenditure funded by supported borrowing	Continue to be charged at the rate of 4% in accordance with existing practice outlined in former CLG regulations
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31st March 2008 and up to 31st March 2009	Asset Life Method, equal instalments - MRP will be based on the estimated life of assets equally across each year
Expenditure funded by unsupported borrowing reflected within the debt liability after the	Asset Life Method, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a

Capital Expenditure Incurred	MRP Methodology
31st March 2010	term equivalent to the estimated life of the project.
Expenditure investing in third parties via a loan which is fully secured and where repayment is in bullet form.	The Council considers the repayment of the loan negates the need for an amount of MRP to be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security

3.4. The Council intends to make secured loans to third parties. These loans are only made after the Council's formal decision making process has been followed, which includes formal approval by the Head of Strategic Finance. As part of the formal decision to grant the loan the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

3.5. The Council participates in the Local Authority Mortgage Scheme (LAMS). During 2011/12 the Council deposited £1m with Lloyds and a further £1m during 2013/14. The Council has the authority to make a total contribution of £10m but with the introduction of the Help To Buy scheme any future contributions will be given further consideration before any decisions are made.

3.6. Such deposits are treated as capital expenditure, as a loan to a third party. The CFR will increase by the total of these indemnities. Operation of the Scheme sees these deposits returned in full at maturity, period of five years, with interest paid annually. Once the deposit matures, and funds are returned to the Council, the funds are classed as a capital receipt (as it is a loan) and the CFR will reduce accordingly. As this is a temporary five year arrangement and the funds are anticipated to be returned in full, there is no MRP application. However, the Council has agreed to place a proportion of the interest received on the deposit into an earmarked reserve to mitigate the impact if the indemnity is used over that period of the Scheme.

3.7. Repayments included in annual PFI and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.8. For more detailed guidance on MRP see the CLG website https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11297/2089512.pdf

4. Treasury Management Strategy

4.1 Treasury Management Policy

4.1.1 The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service requirements. This will involve both the management of cash flow and, where the capital programme requires, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.1.2 The Council's primary treasury management objectives are:

a) to invest available cash balances with a number of high quality investment counterparties (see 4.7.1.2) over a spread of maturity dates in accordance with the Council's lending list;

b) to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible; and

c) to seek to reschedule debt at the optimum time.

4.2 Current Treasury Position

4.2.1 **Indicator 5** - The Council's treasury position at 31st March 2013, with estimates for future years, are summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR.

(5) Gross debt & capital financing requirement	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
External Borrowing												
Market Borrowing	*132.9*	208.9	279.0	488.5	604.2	635.0	635.0	635.0	635.0	635.0	635.0	635.0
Repayment of borrowing	*0.0*	(38.0)	(44.0)	(17.0)	(7.0)	(13.0)	(6.0)	0.0	0.0	0.0	(7.1)	0.0
Expected change in borrowing	*76.0*	108.1	253.4	132.7	37.8	13.0	6.0	0.0	0.0	0.0	7.1	0.0
Other long-term liabilities	*41.2*	39.4	37.4	35.6	34.0	32.6	31.3	30.0	28.7	27.8	26.9	25.8
Gross Debt at 31 March	***250.1***	**318.4**	**525.8**	**639.8**	**669.0**	**667.6**	**666.3**	**665.0**	**663.7**	**662.8**	**661.9**	**660.8**
CFR	*316.1*	384.4	594.1	705.5	734.6	729.5	723.6	714.1	703.1	692.9	682.2	670.5
% of Gross Debt to CFR	***79.0%***	***82.8%***	**88.5%**	**90.7%**	**91.0%**	**91.5%**	**92.0%**	**93.1%**	**94.4%**	**95.6%**	**97.0%**	**98.5%**

4.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.2.3 The Executive Director Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this medium term financial strategy (MTFS).

4.2.4 **Indicator 6** - The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded.

(6) Operational Boundary	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
Borrowing	*208.9*	598.3	629.3	629.1	633.4	635.0	635.0	635.0	635.0	635.0	635.0	635.0
Other long term liabilities	*41.2*	39.4	37.4	35.6	34.0	32.6	31.3	30.0	28.7	27.8	26.9	25.8
Total	***250.1***	**637.7**	**666.7**	**664.7**	**667.4**	**667.6**	**666.3**	**665.0**	**663.7**	**662.8**	**661.9**	**660.8**

4.2.5 **Indicator 7** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by full Council.

- This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Council's plans, or those of a specific Council, although this power has not yet been exercised.
- The Council is asked to approved the following Authorised limit:

(7) Authorised Limit	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
Borrowing	*208.9*	608.3	779.9	668.2	643.4	645.0	645.0	645.0	645.0	645.0	645.0	645.0
Other long term liabilities	*41.2*	39.4	37.4	35.6	34.0	32.6	31.3	30.0	28.7	27.8	26.9	25.8
Total	***250.1***	**647.7**	**817.3**	**703.8**	**677.4**	**677.6**	**676.3**	**675.0**	**673.7**	**672.8**	**671.9**	**670.8**

4.3 Prospects for interest rates

4.3.1 The Council utilises the treasury services of Capita Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions. The Capita Asset Services forecast for bank base rate and PWLB new borrowing is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Now	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17
Bank Rate View	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25
5yr PWLB Rate	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.40
10yr PWLB Rate	3.70	3.60	3.70	3.80	3.80	3.90	3.90	4.00	4.10	4.20	4.30	4.30	4.40	4.50
25yr PWLB Rate	4.40	4.40	4.50	4.50	4.60	4.60	4.70	4.80	4.90	5.00	5.10	5.10	5.10	5.10
50yr PWLB Rate	4.40	4.40	4.50	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.20	5.20	5.20
Budget Assumption	4.40		4.58				4.95				5.20			

4.3.2 The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2013 to 31 October 2014. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

4.3.3 The MTFS assumes borrowing is taken at the 50 year period with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent as it mitigates some of the risk of PWLB rate rise.

4.3.2 Capita Asset Services interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, the economy has grown in quarter 1 and 2 of 2013. Growth prospects remain strong going forward in all three main sectors, services, manufacturing and construction.
- There is still some risk of Quantitative Easing (QE) if there is a dip in strong growth or the Monetary Policy Committee (MPC) take action to reverse the rapid increase in market rates.
- This economic outlook and structure of market interest rates and government debt yields have several treasury management implications:
    - Eurozone sovereign debt difficulties still cause concern and how the levels of debt will be managed over the next few years. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter term periods.
    - Investment returns are likely to remain low during 2014/15 and beyond.
    - Borrowing interest rates have risen significantly during 2013 and are on a rising trend.
    - There will remain a cost of capital - any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

4.4 Borrowing Strategy

4.4.1 The Council is currently maintaining an under-borrowed position, where CFR balance is greater than gross debt. (See table 4.2.) This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken.

4.4.2 The MTFS is based on the following borrowing assumptions for the next ten years. However, the borrowing strategy is under constant review throughout the year as a result to changes in interest rates and borrowing opportunities. The proposed strategy for 2014/15 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) If there was a significant risk of a sharp fall in long and short term rates e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

c) If there was a significant risk of a much sharper rise in long and short term rates than currently forecast, perhaps rising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) Loans will primarily be arranged from the PWLB and other Local Authorities.

e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

4.4.3 There are three debt treasury indicators which ensure the activity of the treasury function remains within certain limits. This manages risk and reduces the impact of any adverse movement in interest rates. The indicators are:

- **Indicator 8** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.
- **Indicator 9** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	*2012/13 Actual £m*	2013/14 Est. £m	2014/15 Est. £m	2015/16 Est. £m	2016/17 Est. £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 Est. £m
(8) Limits on fixed interest rates based on net debt	*208.9*	608.3	779.8	668.2	643.3	645.0	645.0	645.0	645.0	645.0	645.0	645.0
% of fixed interest rate exposure	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
(9) Limits on variable interest rates based on net debt	*0.0*	152.1	195.0	167.7	160.8	161.2	161.2	161.2	161.2	161.2	161.2	161.2
% of variable interest rate exposure	*0%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*

- **Indicator 10** - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

(10) Maturity Structure of borrowing	**Upper Limit**
Under 12 months	40%
12 months to 2 years	40%
2 years to 5 years	80%
5 years to 10 years	80%
10 years and above	100%

4.5 Policy on Borrowing in Advance of Need (Future Capital Expenditure)

4.5.1 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. However, at any time the Council may obtain a loan or other financing at what are considered advantageous opportunities in anticipation of future capital expenditure, which can be invested temporarily. The Council may also borrow in the day to day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

4.5.2 Any decision to borrow in advance of need will be within forward approved CFR estimates, and will be considered carefully to ensure value for money.

4.5.3 The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

4.5.4 The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

4.5.5 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.6 Debt Rescheduling on Existing Debt Portfolio

4.6.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates there may be potential to generate savings by switching from the existing long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Debt rescheduling will only be carried out on current debt portfolio as future borrowing will be carried out as per this strategy and over shorter periods of time.

4.6.2 The reasons for rescheduling will include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the debt portfolio.

4.6.3 All rescheduling will be reported to the Audit Committee at the earliest opportunity.

4.7 Annual Investment Policy

4.7.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

4.7.2 The Council's investment priorities are the security of capital and the liquidity of investments. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

4.7.3 Investment instruments identified for use in the financial year are listed in Appendix 1 under the 'Specified' and 'Non-Specified' Investment categories. Counterparty limits will be as set through the Council's Treasury Management Practices.

4.7.4 Investment Counterparty Selection Criteria and Investment Strategy

4.7.5 As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

4.7.6 However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods

for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.7.7 The Executive Director Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

4.7.8 The Councils minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

4.7.9 In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Capita Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Capita Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades.

4.7.10 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Capita Asset Services.

- If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria it will be removed from the Council's lending list immediately.
- In addition to the use of credit ratings the Council will be advised of information in movement in CDS's against the iTraxx (brand name for the group of credit default swap index products) benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Councils lending list.

4.7.11 Sole reliance will not be placed on the use of Capita Asset Service's advice. The Council will also use market data, market information, information on government support for banks and the credit ratings of that government support.

4.7.12 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, follows:

- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.
- Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 4.7.15 then the following strategy will be followed:
    - The Council would withdraw any money held in the call account, current limit £5m, and place with the Debt Management Office, Bank of Scotland or UK Local Authorities.
    - As the Council will still require to use the Barclays accounts for transactional purposes, a minimum balance of £300k (increased from £100k to ensure adequate cash

flow management ability) will be left overnight to prevent the account becoming overdrawn and incurring overdraft fees

- An amendment to the Treasury Strategy could be proposed to lower the minimum ratings and would be taken to both Audit Committee and Council for approval. This could also be an option if all the UK banks were downgraded at the same time and not just Barclays.
- Seek advice from Capita Asset Services.

The above approach has been developed following consideration of:

- that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity
- the significant impact, resource requirement, and risk exposure of changing bank provider
- the possible state and stability of the banking sector and viable alternative suppliers

- Local Authority Mortgage Scheme. Under this scheme the Council has placed funds of £2m with Lloyds Bank for a period of five years. This is classified as being an indemnity arrangement and therefore accounted for as a capital expenditure transaction, rather than a treasury management investment. Therefore LAMS is outside the Specified/Non specified categories but is included in this Strategy for completeness. The Council can place a further £8m into LAMS and the limit per counterparty is £2m. Any other counterparty used will fall outside the Specified/Non specified categories as per the reason stated above. Therefore the minimum credit criteria need not apply to the LAMS scheme.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings below.

- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have, as a minimum the following credit ratings: (See Appendix 3 for explanation of the credit ratings)

Agency	**Short Term**	**Long Term**	**Viability / financial strength**	**Support**
Fitch	F1	A	a	1
Moody's	P-1	Aa	C	
Standard & Poor's	A-1	A		

- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

4.7.14 The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Appendix 1.

Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by the Executive Director Resources. Approval will also be required if any new counterparties are added to the lending list.

4.7.15 Capita Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches, credit outlooks and CDS spreads to produce a colour coding system which the Council uses to determine the duration of investments. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Capita Asset Services Banding	**Description**
Blue	1 year (only applies to nationalised/semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	The Council will not invest with these institutions

4.7.16 The proposed criteria for Specified and Non-Specified investments are shown in Appendix 1 for approval. During this time of significant economic uncertainty due regard will be taken of the selection criteria outlined in 4.7.15, when using the options outlined in Appendix 1.

4.7.17 Investment returns expectations - Bank Base Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter three in 2016. Bank Rate forecasts for financial year ends are:

Financial Year	**Bank Base Rate**	**Forecast**
2013/14	0.50%	There is an upside risk to these forecasts (i.e. if increases in Bank Rate occurs sooner than forecast) if economic growth remains strong and unemployment falls faster than expected. However there is also a downside risk if the pace of growth falls back particularly if the Bank of England inflation forecasts for the rate of unemployment prove to be too optimistic.
2014/15	0.50%	
2015/16	0.50%	
2016/17	1.25%	

4.7.18 **Indicator 11** - Upper limit for total principal sums invested for over 364 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear. These upper limits are to provide approved flexibility for future LAMS contributions.

(11) Interest Rate Exposure (Upper Limits)	***2012/13 Actual £m***	**2013/14 Est. £m**	**2014/15 Est. £m**	**2015/16 Est. £m**	**2016/17 Est. £m**	**2017/18 Est. £m**	**2018/19 Est. £m**	**2019/20 Est. £m**	**2020/21 Est. £m**	**2021/22 Est. £m**	**2022/23 Est. £m**	**2023/24 Est. £m**
Principal sums invested > 364 days	*1.0*	2.0	4.0	6.0	8.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

4.7.19 At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report to the Audit Committee.

4.7.20 The Executive Director Resources may appoint external fund managers to access markets not available to the in-house treasury team, diversify the investment portfolio and to optimise investment income returns. Fund Managers will only be used if the Executive Director Resources is satisfied the risk of loss is minimised and they can provide material out-performance when compared against comparative cash benchmarks. Fund Managers must comply with the Annual Investment Strategy.

4.8 Peterborough's Growth Delivery Project

4.8.1 The following model has been established and agreed in the paper submitted to Cabinet on the 24th February 2014 http://democracy.peterborough.gov.uk/documents/s19284/5.%20Funding%20Peterboroughs%20Future%20Growth.pdf

4.8.2 A Joint Venture Company (JVCo) 50:50 owned and controlled by the Council and an investment fund called the Peterborough Fund which will work to create commercially viable schemes. Once a scheme is approved by the JVCo board it will pass to the Peterborough Investment Fund, which will create a Special Purpose Vehicle (SPV) to oversee the scheme implementation.

4.8.3 As projects are developed the Council will sell sites previously earmarked for disposal at their current market value to the fund for development. The Council may receive cash or units in the Fund in consideration. The Council will only be able to receive units in the Fund in relation to this project, and this decision may be subject to a further Cabinet Member Decision, it will not be allowed to use the Fund for general investment purposes.

4.8.4 The Peterborough Fund will be registered in Guernsey, regulated by the Guernsey Financial Services Commission and will be VAT registered in the UK. It is expected that the Fund will initially raise £130 million using international and UK investors.

4.9 **Treasury Management Scheme of Delegation**

4.9.1 The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Annual Strategy.

<u>Audit Committee / S151 Officer (Executive Director Resources)</u>

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

<u>Section 151 Officer (Executive Director Resources) / Head of Strategic Resources / Financial Manager-Corporate Accounting</u>

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors.

Specified and Non-Specified Investments **APPENDIX 1**

Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a ‘Specified Investment’ it must have a minimum rating (see 4.7.9)

APPROVED "SPECIFIED" INVESTMENTS				
Investment Type	**Maximum Maturity period**	**Minimum Credit Criteria**	**Collective Limit £m**	**Individual Limit £m**
Debt Management Agency Deposit Facility	Currently only accepts deposits up to 6 months duration.	UK Government backed	N/A	75
Term deposits with UK Government & Local Authorities	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 1	6 months	Minimum ratings - F1(Fitch - short term) AAA (long term)	100	15
UK Government & Local Authority Stock Issues	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 2	6 months	Minimum ratings – F1 (Fitch-short term) A (long term)	50	10
Deposit accounts with regulated UK building societies	6 months	Minimum ratings - F1 (Fitch short term) A (long term)	50	10
Money Market Funds	Repayable on call, without notice.	Minimum rating – AAA (Fitch)	50	10

APPROVED "SPECIFIED" INVESTMENTS

Investment Type	Maximum Maturity period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Commercial Paper (short term obligations issued by banks, corporations & other issuers).	6 months	Minimum short term rating - F1 (Fitch) (Held by custodian)	10	10
Gilt & Bond Funds (open ended mutual funds investing in Gov. & corporate bonds)	Highly liquid, may be sold at any time.	Minimum rating - AAA-(Fitch, S&P A-1 etc.)	10	10
Reverse Gilt Repos (Gilts bought with commitment to sell on a specified date or on call, at agreed price)	6 months	UK Government backed (Held by custodian)	10	10
Treasury Bills	Maturities of up to 6 months Issued through a bidding process at a discount to face value	UK Government backed (Held by custodian)	10	10
Bonds issued by a financial institution guaranteed by UK Government	6 months	UK Government backed (Held by custodian)	10	10
Bonds issued by multilateral development banks	6 months	Minimum rating – AAA (Fitch, S&P A-1etc)	10	10

Non-Specified Investment:

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

APPROVED "NON - SPECIFIED" INVESTMENTS				
Investment Type	**Repayable / Maturity Period**	**Minimum Credit Criteria**	**Collective Limit £m**	**Individual Limit £m**
Term deposits with UK Government & Local Authorities	Maturities of 1 - 5 years	Sovereign risk / high security although not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings - F1(Fitch - short term) AAA (long term)	10	10
UK Government & Local Authority Stock Issues	Maturities of 1 - 10 years but tradable	Sovereign risk / high security although not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings – F1 (Fitch-short term) A (long term)	20	10
Deposit accounts with regulated UK building societies	Maturities of 1 – 5 years	Minimum ratings - F1 (Fitch short term) A (long term)	5	5
Foreign Government Stock Issues (priced in £ Sterling)	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) (Held by custodian)	5	5
Term deposits with UK building societies without formal credit ratings	Maturities of up to 1 year	Financial position assessed by Executive Director Resources	5	5
Bonds issued by a financial institution guaranteed by UK Government	Maturities of 1 - 10 years but tradable	UK Government backed Minimum rating – AAA (Fitch, S&P etc.)	5	5
Bonds issued by multilateral development banks	Maturities of 1 - 10 years but	Minimum rating - AAA (Fitch, S&P A-1etc)	5	5

APPROVED "NON - SPECIFIED" INVESTMENTS				
Investment Type	**Repayable / Maturity Period**	**Minimum Credit Criteria**	**Collective Limit £m**	**Individual Limit £m**
	tradable			
Floating Rate Notes (fixed term but interest rate varies quarterly)	Maturities of 1 - 5 years but tradable	Financial position assessed by Executive Director Resources. Requires capital or revenue financing as share or loan capital.	5	5
Bonds issued by corporate issuers other than sovereign bonds	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) Requires capital or revenue financing as share or loan capital	5	5

APPENDIX 2

Summary of capital and treasury prudential indicators

Summary of capital & treasury prudential indicators	***2012/13***	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**	**Est.**
(1) Capital expenditure (£m)	*£111.7m*	*£117.3m*	£260.8m	£144.7m	£61.2m	£26.6m	£19.8m	£15.8m	£14.8m	£15.5m	£15.7m	£15.7m
(2) Capital Financing Req. (CFR) (£m)	*£316.1m*	*£384.4m*	£594.1m	£705.5m	£734.6m	£729.5m	£723.6m	£714.1m	£703.1m	£692.9m	£682.2m	£670.5m
(3) Ratio of financing costs to net revenue budget	*5.2%*	*6.0%*	7.1%	8.8%	10.2%	10.4%	10.5%	10.6%	10.6%	10.5%	10.6%	11.7%
(4) Incremental impact of capital investment on Council Tax (£) Adjusted	*(£71.88)*	(£31.55)	(£72.33)	(£128.45)	(£51.39)	(£23.23)	(£9.85)	£3.15	£11.33	£16.34	£23.57	£36.61
(5) % of gross debt to the CFR	*79.0%*	82.8%	88.5%	90.7%	91.0%	91.5%	92.0%	93.1%	94.4%	95.6%	97.0%	98.5%
(6) Operational boundary for External Debt (£m)	*£250.1m*	*£637.7m*	£666.7m	£664.7m	£667.4m	£667.6m	£666.3m	£665.0m	£663.7m	£662.8m	£661.9m	£660.8m
(7) Authorised Limit for External debt (£m)	*£250.1m*	*£647.7m*	£817.3m	£703.8m	£677.4m	£677.6m	£676.3m	£675.0m	£673.7m	£672.8m	£671.9m	£670.8m
(8) Upper limit for fixed interest rate exposure (£m)	*£208.9m*	*£608.3m*	£779.8m	£668.2m	£643.3m	£645.0m	£645.0m	£645.0m	£645.0m	£645.0m	£645.0m	£645.0m
(9) Upper limit for variable interest rate exposure (£m)	*£0.0m*	*£152.1m*	£195.0m	£167.7m	£160.8m	£161.2m	£161.2m	£161.2m	£161.2m	£161.2m	£161.2m	£161.2m
(10) – Maturity Structure of Borrowing – See Section 4.4.3 for details												
(11) Interest Rate Exposure (Upper Limits) >364 days	*£1.0m*	*£2.0m*	£4.0m	£6.0m	£8.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m

Explanation of credit ratings **APPENDIX 3**

Agency	Short Term	Long Term	Viability/financial strength	Support
Fitch	**F1**-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a “+” may be added to denote any exceptionally strong credit feature.	**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 adverse business or economic conditions than is the case for higher ratings.	**a** - High fundamental credit quality. ‘a’ ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to default .This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.	**1**-A bank for which there is an extremely high probability of external support. The potential provider of support is highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long Term Rating floor of ‘A-‘.
Moody’s	**P-1**-superior ability to repay short-term debt obligations	**Aa**-high quality and are subject to very low credit risk	**C**-Possess intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment or good financial fundamentals within a less predictable and stable operating environment.	
Standard & Poor’s	**A-1**-The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.	**A**-more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor’s capacity to meet its financial commitment on the obligation is still strong.		