Uttlesford District Council

Treasury Management Strategy

2014/15

Contents

1.0 - Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management requires the preparation of an annual Treasury Management Strategy Statement (TMSS).

1.2 Treasury Management activities are defined by CIPFA as:

"The management of the Council's investments, borrowing 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 optimal performance consistent with those risks."

1.3 The Council regards the successful identification, monitoring and control of risk to be prime criteria by which the effectiveness of its treasury management activities will be measured. Therefore, any reporting of treasury management activities will focus on the risk to the Council and the management of such risks.

1.4 The main risks to the Council's treasury activities are:

- Liquidity risk (inadequate cash resources)
- Market or interest rate risk (fluctuations in interest rates)
- Inflation risk (exposure to change in prices)
- Credit and counterparty risk (security of investments)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory risk (i.e. non-compliance with requirements)

1.5 The main changes from the strategy adopted in 2013/14 are:

The counterparty list has been revised and now includes the option to buy Treasury-Bills (T-Bills), Government Gilts, invest in UK domiciled Money Market Funds and building societies.

The new strategy also recognises each local Council as a separate body when determining investment threshold limits.

The strategy will also treat each Local Council as secure as Treasury Debt Management Office (DMO) and will not request a credit rating from Local Authorities.

The new strategy also provides flexibility to invest for up to one year with highly secure counterparties but with a reduced cash limit.

2.0 - Policies and Objectives

2.1 The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and services objectives. Therefore, it is committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

2.2 The Council's borrowing will be affordable, ensuring appropriate provision is made within the revenue budget to repay debt. It should also be sustainable and prudent, consideration being given to the management of interest rate risk and risks associated with refinancing. Also, the Council's borrowing activities will be transparent as will its control of its debt.

2.3 With regards to the Council's Investment Strategy the key focus and order of priority will be as follows:

1) Security
2) Liquidity
3) Return

3.0 - Reporting Requirements

3.1 In line with best practice, Members are required to receive and approve, as a minimum, three main reports each year. The report which should accompany the Council's budget strategy and Medium Term Financial Strategy (MTFS) is to be reviewed by Scrutiny Committee prior to approval by Cabinet and referral to Full Council. The main reports to be reviewed during the year are:

a) Mid-Year Treasury Management Report:

updating Cabinet with progress on the capital position, amending the prudential indicators or Investment Counterparty list as necessary and in general revising the TM strategy if need be.

b) An Annual Treasury Management Outturn Report:

Providing details of actual prudential and treasury indicators and actual treasury operations compared to the estimates included in the strategy. The report will be presented to Cabinet in September 2014 after the financial year end.

c) Treasury Management Regular Reports:

included within the General Fund, Housing Revenue Account and Capital Programme budget monitoring reports received by the Cabinet as scheduled in the Committee reporting timetable.

4.0 - External Context

4.1 The Bank of England's Monetary Policy Committee (MPC) through its forward guidance is committed to keeping policy rates low for an extended period. However its 7% unemployment threshold for when it would consider whether or not to raise interest rates is largely redundant given that unemployment now sits at 7.1%. Nevertheless the rates are not expected to rise until 2016 in order to encourage economic growth.

4.2 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.

4.3 Credit outlook:

The credit risk of banking failures has diminished, but not dissipated altogether. Diversification of investments between creditworthy counterparties to mitigate risk will become even more important in the light of new developments, such as Bail-in Risk.

4.4 Bail-in is an alternative to taxpayer funded bailouts of failing banks. Deposit holders such as UDC will be hit before the government can legally bail-out a failing bank.

4.4 Interest rate forecast:

Arlingclose's (our consultant) forecast is for the Bank Rate to remain flat until late 2016.

4.5 A more detailed economic and interest rate forecast provided by the Council's treasury management advisor is attached at ***Appendix A4***.

4.6 The following table lists the Quarterly and Yearly Gross Domestic Product figures in the UK in the last few years. There has been a gradual year on year increase in GDP since Q2 of 2012.

Year	Quarter	GDP Q-on-Q %	GDP Y-on-Y %
2012	Q2	0.00	0.00
2012	Q3	0.80	0.20
2012	Q4	-0.10	0.20
2013	Q1	0.50	0.70
2013	Q2	0.80	2.00
2013	Q3	0.80	1.90

5.0 - Borrowing Strategy

5.1 The Council maintained an 'under-borrowed' position up until 28th March 2012. This means that the Capital Financing Requirement was not funded with new external debt as cash supporting the Council's reserves balances and cash flow have been used. This position changed with the need to borrow to finance the HRA 'Self Financing' payment.

5.2 The Medium Term Financial Strategy (MTFS) is based on the following borrowing assumptions for the next five years:

- *To finance capital expenditure by continuing to run down cash balances and forego interest income at historically low interest rates.*
- *The Council has signed up for the Government's new 'certainty rate' for local authorities of 0.2% below the standard PWLB rates but the arrangement will not be required for 2014/15 as the intention is to use internal borrowing which is currently more cost effective.*
- *If there is a significant risk of a sharper rise in long and short term rates than forecast then the debt portfolio position will be reappraised; with consideration given to fixed rate funding whilst rates are still relatively cheap.*

5.3 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 loans instead.

5.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustainable in the medium-term.

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

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

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

5.7 The Council has previously raised £88.407m of long-term borrowing from the Public Works Loan Board.

6.0 - Debt Rescheduling

6.1 The Council's debt portfolio can be restructured through the premature repayment of loans and refinancing to reduce interest rate risk and make savings in the revenue budgets.

6.2 The Council currently pays approximately £2.5m each year towards interest cost for the £88.407m loan borrowed from PWLB.

6.3 The Council has the option of paying off some of the loans prior to maturity in order to benefit from discount rates and save on future interest rate payments if cash flow forecast permits. Following discussions with the Council's Treasury Management consultants it is agreed that the Council could benefit from future potential discount rates offered by Public Works Loan Board (PWLB) and overall reduce cost to the Council. With the assistance of the Council's treasury advisors, the debt portfolio will be kept under review to take advantage of any rescheduling opportunities.

January 2014

Uttlesford District Council: PREMIUMS AND DISCOUNTS ON PWLB LOANS

Eligible for premature repayment?	Start Date	Maturity Date	Actual years to maturity	Principal	Coupon Rate	(Premium)/ Discount	Redemption Amount (excluding interest)
YES	28/03/2012	28/03/2024	10.37	3,000,000.00	2.700%	(10,812)	3,010,812
YES	28/03/2012	28/03/2034	20.37	4,000,000.00	3.370%	(17,630)	4,017,630
YES	28/03/2012	28/03/2036	22.37	4,000,000.00	3.420%	(24,972)	4,024,972
YES	28/03/2012	28/03/2032	18.37	4,000,000.00	3.300%	(10,973)	4,010,973
YES	28/03/2012	28/03/2025	11.37	3,000,000.00	2.820%	(5,808)	3,005,808
YES	28/03/2012	28/03/2026	12.37	3,000,000.00	2.920%	(3,098)	3,003,098
YES	28/03/2012	28/03/2028	14.37	3,000,000.00	3.080%	0	3,000,000
YES	28/03/2012	28/03/2037	23.37	5,000,000.00	3.440%	(32,070)	5,032,070
YES	28/03/2012	28/03/2023	9.37	2,000,000.00	2.560%	(9,969)	2,009,969
YES	28/03/2012	28/03/2039	25.37	5,000,000.00	3.470%	(33,704)	5,033,704
YES	28/03/2012	28/03/2031	17.37	4,000,000.00	3.260%	(5,277)	4,005,277
YES	28/03/2012	28/03/2041	27.37	5,000,000.00	3.490%	(44,101)	5,044,101
YES	28/03/2012	28/03/2029	15.37	3,000,000.00	3.150%	0	3,000,000
YES	28/03/2012	28/03/2027	13.37	3,000,000.00	3.010%	0	3,000,000
YES	28/03/2012	28/03/2038	24.37	5,000,000.00	3.460%	(41,153)	5,041,153
YES	28/03/2012	28/03/2042	28.37	5,407,000.00	3.500%	(48,668)	5,455,668
YES	28/03/2012	28/03/2035	21.37	4,000,000.00	3.400%	(24,255)	4,024,255
YES	28/03/2012	28/03/2040	26.37	5,000,000.00	3.480%	(34,487)	5,034,487
YES	28/03/2012	28/03/2033	19.37	4,000,000.00	3.340%	(17,058)	4,017,058
YES	28/03/2012	28/03/2030	16.37	4,000,000.00	3.210%	(5,066)	4,005,066
						(369,101)	**78,776,101**
				PWLB MATURITY	**20.15**	**78,407,000**	**3.278%**
				PWLB VARIABLE	**6.37**	**10,000,000**	**0.550%**
				TOTAL PWLB	**18.60**	**88,407,000**	**2.969%**

7.0 - Investment Strategy

7.01 The Council holds invested 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 £8m and £25 million, and similar levels are expected to be maintained in the forthcoming year.

7.02 Both the CIPFA Code and the CLG 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 receiving unsuitably low investment income.

7.03 The Council may invest its surplus funds with any of the counterparties in Appendix A3, subject to the cash, investment and time limits shown.

7.04 There is no intention to restrict investments to bank deposits, and investments may be made with other public or private sector organisations that meet the A- credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as new reforms are implemented, such as Bail-in Risk.

7.05 Current Account:

The Council banks with Barclays Bank PLC which meets the Council's minimum credit criteria, A-. Even if the banks credit rating fell below the Council's minimum rating the bank would continue to be used to facilitate short term liquidity requirements (overnight and weekend investments) and to provide business continuity arrangements.

In determining the maximum threshold of investment with Barclays bank the Council will need to take into account the total cash held with the Bank and not exclude the current account balance. For liquidity reasons and the optimum interest from the current account the Council should hold at least £0.25m and a maximum of £1.25m level of cash in the current account.

7.06 Building Societies:

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 therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

7.07 Money Market Funds

These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts.

The South East Treasury Management group has recorded in October 2013 that out of the twenty six member authorities, twenty one are currently investing in Money Market Funds to diversify risk.

7.08 Use of Financial Instruments

Although recent legislation has opened up the ability of Councils to operate in a similar manner to a corporate body (General Power of Competence – Localism Act 2011) and use financial derivatives to manage its treasury management risks. The Council does not at present intend to use derivative financial instruments to manage treasury management risk.

7.11 T-Bills:

These are short term securities issued by HM Treasury on a discount basis. For example a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the interest received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

7.12 Government Gilts:

Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

7.13 In order to invest in T-bills and Gilts the Council will need to have a custodian and settlement account with either Barclays Bank or King & Shaxson as per advice from the Council's TM consultants.

7.14 Specified Investments:

The CLG 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 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.

7.15 Non-specified Investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares.

7.16 Given the Council's current risk appetite in the current economic climate the Council is not willing to consider 'Non Specified' investments.

7.17 Investment Limits

The Council's revenue reserves available to cover investment losses are forecast to be £6.947 million on 31st March 2014.

Counterparty list:

Counterparty		Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£1m each	1 year
	AA+		1 year
	AA		1 year
	AA-		1 year
	A+		1 year
	A		1 year
	A-		
The Council's current account bank, Barclays Bank, if it fails to meet the above criteria		£1.5m	next day
UK Central Government (irrespective of credit rating)		unlimited	no limit
UK Local Authorities (irrespective of credit rating), per authority		£1m each	1 year
UK Building Societies without credit ratings*		£0.5m each	1 year
Saffron Walden Building Society		£0.25m	1 year
Money Market Funds, UK Domiciled	AAA	£1m each	next day

* There are 14 Building Societies suggested by Arlingclose, see appendix A3.

7.18 Approved Instruments:

The Council may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans,
- Government Treasury Bills (T-Bills)
- Money Market Funds and other pooled funds.

7.19 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.

8.0 - Risk Assessment

8.1 Where applicable, the Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. 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:

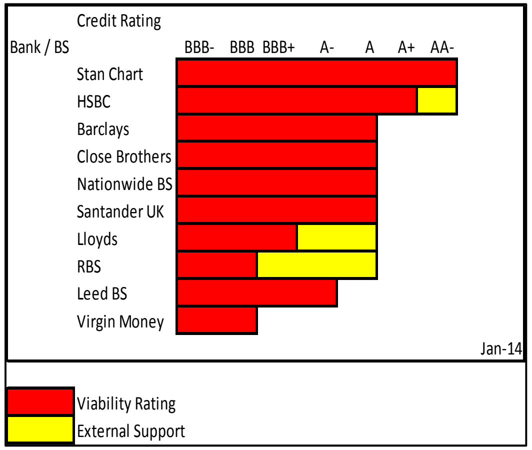
- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

8.2 Credit rating:

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. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

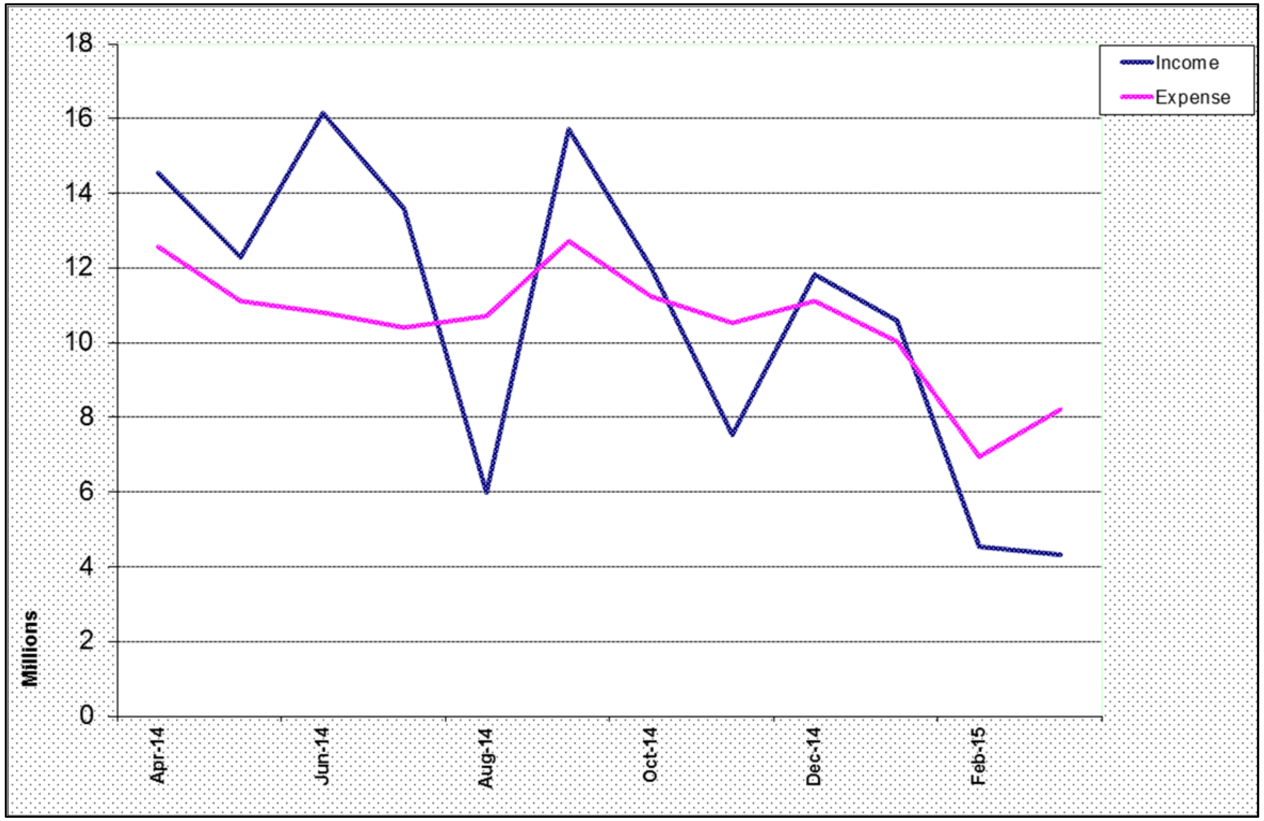
8.4 The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, 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.



9.0 - Liquidity Management

9.1 The Council uses cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed.

9.2 The forecast is compiled on a prudent 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.



10.0 - Governance Arrangements

10.1 Treasury Management Scheme of Delegation:

The following lists the main treasury management responsibilities in relation to the relevant individual/Committee:

Full Council:
Approval of the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision.

Cabinet:
Reviews the Treasury Management Strategy and recommends the Strategy for approval by Full Council. Receive reports on Treasury Management activities.

Performance and Audit Committee:
Monitors compliance with the Council's Financial Regulations.

Scrutiny Committee:

Assists in the development of budget and policy framework. Reviews and scrutinises policy objectives and performance targets.

S151 Officer – Assistant Chief Executive - Finance:

Implements and monitors the Treasury Management Strategy. Reports to Cabinet no less than three times in each financial year on treasury management activities and the relevant delegated powers.

One activity report must comprise the annual treasury management outturn report. To be reported to Cabinet by the September following the end of the financial year.

11.0 - Treasury Management Procedures

11.1 Treasury Management Procedures (TMP's) will be reviewed on an annual basis prior to the commencement of the financial year and will be in compliance with CIPFA's guidance on Treasury Management Practices.

11.2 Role of Treasury Management Advisors:

The Council uses Arlingclose as its treasury management advisors, which provides access to specialist skills/resources in the following areas:

- Credit Advice
- Investment advice
- Technical advice
- Economic and interest rate forecasts
- Workshops and training events
- HRA support, etc

11.3 The quality of the service provided by Arlingcloseis reviewed by the Chief Finance officer and other relevant staff members.

11.4 In applying the Council's agreed terms of appointment and undertaking timely reviews of the service provided; the value added from the appointment can be assessed and properly documented.

11.5 The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that the appropriate training and decision making process does not place undue reliance on the advisors.

11.6 Training:

CIPFA's Code of Practice requires the S151 Officer to ensure that all officers and members tasked with treasury management responsibilities, including scrutiny of the TM function receive appropriate training and understand fully their roles and responsibilities.

12.0 – Existing Investment & Debt Portfolio Position

Forecast Investment and Debt Portfolio Position As at 31st March 2014	
Balance Sheet Extract	**Forecast £'000**
External Borrowing:	
Variable Rate PWLB	10,000
Fixed Rate PWLB	78,407
Total External Borrowing	**88,407**
Other Long Term Liabilities:	
PFI	5,141
Finance Leases	14
Pension Liability	0
Total Long Term Liabilities	**5,155**
Total Gross Debt	**93,562**
Investments	
Long Term Investments	0
Short Term Investments	0
Cash and Cash Equivalents	15,862
Total Investments	**15,862**
Net Borrowing	**77,700**

Uttlesford District Council

Prudential Indicators

2014/15

Contents

1.0 - Introduction

1.1 This report covers the requirements of the 2011 CIPFA Prudential Code (as amended in 2012) to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement.

2.0 - Background

2.1 Prudential Indicators 2014/15:

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow.

2.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

2.3 To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

UTTLESFORD DISTRICT COUNCIL

It's Our Community

3.0 – Capital Expenditure

3.1 The Council's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure - General Fund £000s	2013-14 Current Budget	2013-14 Forecast Spend	2014-15 Budget	2015-16 Budget	2016-17 Budget	2017/18 Budget	2018/19 Budget	Total
Total Capital Expenditure	3,439	5,045	1,472	880	680	1,070	510	13,096
Financing - General Fund								
Grants & Contributions	-1,676	-3,313	-422	-165	-65	-65	-65	-5,771
Revenue Contributions	-589	-767	-663	-365	-265	-265	-175	-3,089
General Fund Capital Receipts	0	-209	0	0	0	0	0	-209
Internal Borrowing	-1,174	-756	-387	-350	-350	-740	-270	-4,027
Total Capital Financing	-3,439	-5,045	-1,472	-880	-680	-1,070	-510	-13,096
Net Financing Need (External Borrowing)	0	-0	0	0	0	0	0	-0

Housing Revenue Account Capital Schemes £000s	2013-14 Current Budget	2013-14 Forecast Spend	2014-15 Budget	2015-16 Budget	2016-17 Budget	2017/18 Budget	2018/19 Budget	Total
Total Capital Expenditure	7,035	7,076	8,310	6,643	6,553	5,790	5,799	47,206
Financing - Housing Revenue Account								
Major Repairs Reserve Contribution	-3,081	-3,081	-3,136	-3,209	-3,281	-3,356	-3,432	-22,577
HRA Financial Headroom to fund Capital Re	-712	-712	-1,047	-344	-322	-197	-131	-3,464
HRA Financial Headroom - Specific Schemes	-1,933	-2,029	-1,647	-2,640	-2,500	-537	-2,036	-13,322
HRA Headroom - Funded from reserves	-600	-600	-550	0	0	-1,500	0	-3,250
Energy efficiency Grant Funding	-131	-131	0	0	0	0	0	-262
S106 - Housing Partnership Funding - HRA	0	0	-1,180	0	0	0	0	-1,180
Capital Receipts - RTB	-578	-523	-750	-450	-450	-200	-200	-3,151
Total Financing	-7,035	-7,076	-8,310	-6,643	-6,553	-5,790	-5,799	-47,206
Net Financing Need (External Borrowing)	0	0	0	0	0	0	0	0

4.0 – Capital Financing

4.1 Estimates of Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

CAPITAL FINANCING REQUIRMENT	Forecast 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
General Fund	8,675	8,522	8,266	7,966	7,997	7,496
Housing Revenue Account (HRA)	90,053	90,064	88,407	88,407	86,407	84,407
TOTAL	**98,728**	**98,586**	**96,673**	**96,373**	**94,404**	**91,903**

5.0 – Operational Boundary

5.1 The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

6.0 - Authorised Limit

6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Prudential Indicator	Forecast 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
Operational Boundary	93,898	93,474	93,364	93,261	91,149	89,028
Authorised Limit	101,898	101,474	101,364	101,261	99,149	97,028

7.0 – Ratio of Financing Costs to Net Revenue Stream

7.1 Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	Forecast 2013/14 %	Estimate 2014/15 %	Estimate 2015/16 %	Estimate 2016/17 %	Estimate 2017/18 %	Estimate 2018/19 %
General Fund	12.20%	8.89%	9.44%	9.77%	10.22%	10.69%
Housing Revenue Account	18.75%	18.02%	16.63%	16.53%	15.96%	15.44%

8.0 – Incremental Impact of Capital Investment Decisions

8.1 Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

INCREMENTAL IMPACT OF CAPITAL INVESTMENT	Forecast 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £	Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £
General Fund	-8.13	10.42	5.79	5.37	-10.25	0.00
Housing Revenue Account (AWR)	-5.19	-4.50	-1.05	-3.12	-6.35	0.00

AWR = Average Weekly Rent

9.0 – Interest Rate Exposure

9.1 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 the amount of net interest payable.

Prudential Indicator	Forecast 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
Limits on Fixed Interest Rate based on Net Debt	2,570	2,570	2,570	2,570	2,570	2,570
	3.28%	3.28%	3.28%	3.28%	3.28%	3.28%
Limits on Variable Interest Rate based on Net Debt	54	54	54	54	43	32
	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%

10.0 – Liquidity / Refinancing

10.1 Maturity Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk. This is the upper limit on the maturity structure of **fixed** rate borrowing.

10.2 The limits are set for each category to ensure that the Council avoids fixed rate loans being matured in one time and spreads that across several periods.

Liquidity/Refinancing	2014/15 £000's
Maturity Structure - Upper Limit	
Under 5 Years	4,000
5 years to 10 years	14,000
11 years to 20 years	32,000
21 years and above	38,407
Total	**88,407**

An example for clarity: If the Council decides to borrow £5m fixed rate loan in 2014/15 it must ensure that the Council's total **fixed** rate loan should not all mature within the next five years as it is capped at £4m.

Minimum Revenue Provision Statement

2014/15

Contents

1.0 - Introduction

1.1 This report covers the requirements of the latest Guidance on Minimum Revenue Provision for an annual MRP statement. The Statement should be approved by the full Council before the start of the new financial year which is a legislative requirement.

2.0 - Background

2.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum charge since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's / Department of Environment's *Guidance on Minimum Revenue Provision* (the DCLG/DOE Guidance) most recently issued in 2012/2011.

2.2 The broad aim of the DCLG/DOE Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3.0 - UDC Minimum Revenue Provision Statement

3.1 The DCLG/DOE Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

3.2 For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by either charging the expenditure over the expected useful life of the relevant assets in equal instalments or as the principal repayment on an annuity with a specifically determined annual interest rate, starting in the year after the asset becomes operational.

3.3 MRP will be charged over differing time periods depending on the classification of the asset involved. These periods will relate to the useful life of the asset and be consistent with the write down periods adopted for the same assets in the Council's depreciation policy.

3.4 For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

3.5 MRP in respect of the £88.407m payment made in 2012 to exit the Housing Revenue Account subsidy system will be determined as being equal to the principal amount repaid on the loans borrowed to finance that payment.

3.6 Expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged to revenue in the year the expenditure is incurred. Examples of this expenditure include Community Grants, Disabled Facilities Grants and Private Sector Renewal Grants.

4.0 – CFR / MRP Tables

	31.03.2014 Estimated CFR	2014/15 Estimated MRP
	£m	**£m**
Capital expenditure before 01.04.2008	**-**	-
Supported capital expenditure after 31.03.2008	**-**	-
Unsupported capital expenditure after 31.03.2008	**3.502**	0.434
Finance leases and Private Finance Initiative	**5.173**	0.106
Transferred debt	**-**	-
Loans to other bodies	**-**	Nil
Total General Fund	**8.675**	**0.54**
Assets in the Housing Revenue Account	**1.646**	Nil
HRA subsidy reform payment	**88.407**	-
Total Housing Revenue Account	**90.053**	**0**
Total	**98.728**	**0.54**

Uttlesford District Council

Counterparty list

2014/15

1.0 Specified Investments under Statute:

Investments with high security and low liquidity risk:

Instrument
Term deposits with Banks and Building Societies
Debt Management Account Deposit Facility
Term deposits with Other UK Local Authorities
Investments with Registered Providers (Housing Associations)
Certificates of Deposit with Banks and Building Societies
Gilts
Treasury Bills (T Bills)
Bonds issued by Multilateral Development Banks
Local Authority Bills
Commercial Paper
Corporate Bonds
AAA Rated Money Market Funds - UK and Non UK Domicile
Other Money Market and Collective Investment Schemes

1.1 The table on the next page is a list of bodies which the Council can lend to as per 14/15 TM strategy and in line with the Arlingclose Counterparty list as at January 2014.

1.2 During the year Arlingclose or the Council could vary the counterparty list / strategy, and there is a potential that one will contradict with the other. The Arlingclose counterparty is regularly reviewed along with the 2014/15 Treasury Management strategy to ensure both requirements are met before money is lent to relevant bodies.

1.3 Saffron Building Society is included within the 14/15 strategy but not on the Arlingclose Counterparty list and is currently exempt from this requirement.

1.4 Counterparty list

Date: January 2014

Specified Investments Counterparty List tailored for UDC and approved by Arlingclose				
Instrument	**Domicile**	**Security Rating (Fitch Rating)**	**Cash limit**	**Maximum Period**
Government DMO	UK	AA+	unlimited	No limit
Local Authority (per authority)	UK	AA+	£1m	1 Year
Treasury Bills (T-Bills)	UK	AA+	£1m	1 Year
UK Government Gilts	UK	AA+	£1m	1 Year
Lloyds / Bank of Scotland	UK	A	£1m	6 months
Barclays Bank plc	UK	A	£1m	12 months
HSBC Bank plc	UK	AA-	£1m	12 months
Leeds Building Society	UK	A-	£1m	100 days
National Westminster Bank	UK	A	£1m	Overnight
Nationwide Building Society	UK	A	£1m	6 months
Royal Bank of Scotland	UK	A	£1m	Overnight
Santander UK Plc	UK	A	£1m	6 months
Standard Chartered Bank	UK	AA-	£1m	12 months
UK Building Societies without credit ratings*	UK	n/a	£0.5m	100 days
Saffron **	UK	n/a	£0.25m	100 days
CCLA - PSDF - MMF	UK	AAA	£1m	On Call
FEDERATED INVESTORS - MMF	UK	AAA	£1m	On Call

* see Building Society list below

** Saffron BS is excluded from Arlingclose list because it narrowly misses two of the four criteria threshold. However in one of the ratio calculations it performs exceptionally well and very highly in the other, see table below.

1.5 Building Societies – Counterparty list

Building Societies	Liquid Assets to Funding Ratio, Position out of 38 BS	Wholesale Funding Ratio, Position out of 38 BS	Capital to Lending Ratio, Position out of 38 BS	Non-performing Loans, Position out of 38 BS
Scottish	4	4	9	10
Harpenden	8	27	7	16
Marsden	9	17	1	4
Loughborough	10	10	13	26
Furness	12	23	10	19
Hinckley & Rugby	13	28	17	9
Mansfield	15	9	19	1
Vernon	16	22	18	12
Tipton & Coseley	17	8	6	30
Melton Mowbray	18	21	5	28
Market Harborough	20	16	20	2
Leek United	21	3	21	5
Darlington	23	11	8	20
Newbury	24	18	25	3
Leeds (Threshold)	34	30	27	32
Saffron (information purpose only)	1	31	33	13

Where 1 indicates best performance

Appendix A4

Underlying Economic and Interest rate assumptions and forecast from Arlingclose:

- UK economic growth has steadily strengthened, although GDP remains around 1.3% below the pre-recession peak. The initial estimate showed that Q4 year-on-year GDP growth strengthened to 2.8% from the previous quarter's 1.9% rate. The service sector remains the main driver of growth.

- Expenditure breakdown of the GDP data during 2013 (Q4 details are awaited) indicates that the recovery has been led by consumer spending and housing investment. Given negative real earnings growth and the waning impact of temporary income boosts from bank mis-selling compensation, household spending growth at current rates appears unsustainable in the short to medium term. An expansion in business investment and rebalancing of the economy will be necessary for sustained growth.

- An expected slowdown in house hold spending growth should keep inflation contained. The CPI rate for December 2013 fell to the MPC's target of 2.0% and Arlingclose expect it to remain around this level for some time. Inflation expectations are well anchored and commodity price volatility is subdued.

- The recovery has not been accompanied by meaningful productivity growth. Business investment is expected to pick up in the medium term and should help to restore productivity growth, leading to higher wages and more sustainable growth in consumption. Arlingclose expect this to have a material impact on growth from 2016. In the short term, however, on-going regulatory reform and a focus on balance sheet restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottle neck, which will dampen business investment.

- The unemployment rate has fallen close to the 7% forward guidance threshold earlier than expected, although this number is flattered by the large numbers of people involuntarily underemployed. The MPC has made clear that 7% is not a policy trigger and Arlingclose expect no response if surpassed in the short term. Additionally, any likely monetary tightening response is likely to be applied "gradually".

- Political risk for the UK will begin to influence gilt yields closer to the General Election in May 2015.

- Federal Reserve monetary policy expectations will remain predominant drivers of the financial markets. Tapering of asset purchases has begun and is expected to continue at a broadly steady rate in 2014. Additionally, the US political deadlock over the debt ceiling will need resolving in Q1 2014. This may prompt temporary volatility.

- The economic environment in the Euro zone is slightly more stable but structural issues persist and credit conditions remain challenging for European banks.

- There is a risk China will suffer from a credit crunch style crisis, as the authorities seek to stem lending growth. This has possible negative repercussions for domestic retail investors and the highly leveraged local government sector, which could dampen domestic spending and investment.

Forecast:

- Arlingclose are now forecasting the first rise in official interest rates in Q2 2016 but their long held theme of low for even longer remains. There is clear momentum in the economy although some weakness remains in some components of growth. Unemployment has fallen much faster than expected but has not led to any wage growth and productivity remains stagnant.

- Arlingclose see both these indicators alongside business investment remaining the key to modestly higher interest rates. Inflation has fallen faster than expected and currently sits at target. The gradual recovery in the economy is underway. Whilst further challenges to that momentum cannot be ruled out, some upside potential for official interest rates must be ruled-in.

- Arlingclose continue to project gilt yields on an upward path through the medium term as the recovery gradually takes hold.

31 January 2014