TREASURY MANAGEMENT STRATEGY 2016/17

REPORT OF THE TREASURER

FIRE AUTHORITY

For Approval

1. PURPOSE OF REPORT

1.1 To enable the Fire Authority to approve the recommended Treasury Management Strategy for 2016/17.

2. RECOMMENDATIONS

It is recommended that Members note the report and the recommendation from Audit and Governance Committee to approve the following detailed recommendations for the 2016/17 Treasury Management Strategy and related issues:

i) Investment Strategy

a. Approve the use of Government Treasury Bills/Gilts and the appointment of King and Shaxson as custodian.
b. Approve the addition of Svenska Handelsbanken to the counterparty list with a limit of £1m and time limit of three months.
c. Approve the Counterparty limits as set out in Appendix 1 paragraph 9.8.

ii) Minimum Revenue Provision (MRP) Statement

Recommend to the Authority the approval of the MRP statement outlined in Appendix 1 paragraph 10.2.

iii) Prudential Indicators 2016/17
Approve the prudential indicators detailed in Appendix 2.

3. SUMMARY OF ISSUES

3.1 The Local Government Act 2003 requires the Fire Authority to ‘have regard to’ the CIPFA Prudential Code and to set prudential indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

3.2 The Act therefore requires the Authority to determine a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the Authority’s policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State issued Guidance on Local Government Investments which came into force on 1st April, 2004. This guidance recommends that all Authorities produce an Annual Investment Strategy that is approved by full Fire Authority, which is also included in this report.

3.3 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the Fire Authority. This responsibility has been allocated to the Audit and Governance Committee.

3.4 The recommended Treasury Management Strategy was considered by the Audit and Governance Committee on the 13th November 2015 and this report is attached as Appendix 1.

3.5 The Audit and Governance Committee carefully scrutinised the proposed Treasury Management strategy and approved that the recommended strategy be referred to full Fire Authority.

3.6 At the time of the Audit and Governance Committee it was not possible to calculate supporting Prudential Indicators as this is reliant on Government Capital and Revenue Allocations which had not been issued. However, as the Treasury Management Strategy outlines the key principles covering the operation of the Authority's borrowing and investment strategy the unavailability of this information did not prevent the Audit and Governance Committee from considering and scrutinising the proposed strategy.

3.7 Prudential indicators and other regulatory information have now been completed and are attached as Appendix 2 and cover the following:

- Prudential Indicators;
- Capital Expenditure and Financing Requirement;
- Affordability Prudential Indicators;
- Borrowing Prudential Indicators;
- Investment Prudential Indicators and Other Limits on Treasury Activity.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

TREASURY MANAGEMENT STRATEGY 2016/17

REPORT OF THE TREASURER

CLEVELAND FIRE AUTHORITY

For Recommendation

1. PURPOSE OF REPORT

1.1 The purpose of the report is to enable the Audit and Governance Committee to scrutinise the recommended 2016/17 Treasury Management Strategy before it is referred to the full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the recommended 2016/17 Treasury Strategy and note that if Members are content the following recommendations will be referred to the full Fire Authority for approval:

i) Note the 2014/15 Treasury Management outturn detailed in section 5 and Appendix A.

ii) Note the 2015/16 Treasury Management mid-year position detailed in section 6 and approve the revised Operational Borrowing Limit of £7.5m.

iii) Note that detailed prudential indicators for 2016/17 and future years will be reported to full Fire Authority in February 2016.

iv) Investment Strategy 2016/17
   a. Approve the use of Government Treasury Bills/Gilts and the appointment of King and Shaxson as custodian.
   b. Approve the addition of Svenska Handelsbanken to the counterparty list with a limit of £1m and time limit of three months.
   c. Approve the Counterparty limits as set out in paragraph 9.8.

v) Minimum Revenue Provision (MRP) Statement
Recommend to the Authority the approval of the MRP statement outlined in paragraph 10.2.

3. BACKGROUND

3.1 The Treasury Management Strategy covers:

- The strategy for the Authority's borrowing requirement arising from historic capital expenditure and the element of the approved Asset Management Plan funded from Prudential borrowing; and
- The annual investment strategy relating to the Authority's cash flow.

3.2 The Local Government Act 2003 requires the Authority to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code and to set prudential indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

3.3 The Act therefore requires the Authority to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April, 2004. This guidance recommends that all Local Authorities produce an Annual Investment Strategy that is approved by the Authority.

3.4 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the full Authority. This responsibility has been allocated to the Audit and Governance Committee.

3.5 This report covers the following areas:

- Economic background and outlook for interest rates
- Treasury management outturn position for 2014/15
- Treasury Management Strategy 2015/16 mid-year review
- Treasury Management Strategy 2016/17
- Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2016/17

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

4.1 At the time the 2015/16 Treasury Management Strategy was proposed most economists anticipated that interest rates in the USA and the UK would begin to increase during 2015. This position reflected underlying economic conditions and statements from both the Federal Reserve and the Bank of England.

4.2 Members will recall from previous years that the Chairman of the Bank of England issued 'forward guidance' and set a number of tests for determining the time of interest rate increases. However, 'forward guidance' has been overtaken by world economic events and changes in the pattern of UK economic indicators. For example, initial forward guidance stated that the Bank rate of 0.5% would be reconsidered when unemployment reduced to 7%. This was almost immediately revoked and although unemployment has fallen to 5.4% the Bank rate has not changed. Guidance has since become much more fluid and not based on exact targets, but aims to influence ongoing market and consumer activity.

4.3 As a result of these changes most economists are now forecasting that the Bank rate increase will be delayed further. The timing of interest rate increases will need careful management by central banks as there is a risk that higher rates may be required if rate increases are delayed too long. The following paragraphs provide more detailed information.

4.4 **The Global Economy**

4.5 **U.S.A. economy** – Following slow growth in the first quarter of 2015 the US economy rebounded very strongly in quarter two and strong growth was forecast to continue. This led to the expectation that the Federal Reserve might raise interest rates by September 2015. However, owing to the slowdown in Chinese growth the decision was taken not to increase rates. Following further disappointing economic data, expectations of the first rate rise in USA interest rates have now been pushed back from 2015 to 2016.

4.6 **Eurozone economy** – In an effort to stimulate the Eurozone economy the European Central Bank (ECB) initiated a €1.1 trillion quantitative easing (QE) programme in January 2015, buying up high quality government debt of selected Eurozone countries. This programme is expected to run until September 2016 and already appears to have had a beneficial impact in improving confidence and sentiment. European growth has increased marginally (0.4% in the first and second quarters of 2015). The ECB has also stated that it would extend its QE programme if inflation failed to return to the target of 2% by September 2016.

4.7 During July 2015 Greece agreed to implement further austerity and is now fully cooperating with EU demands and a third bailout package has since been agreed. A surprise general election in September gave the Syriza Government a mandate to stay in power to implement austerity measures. However there are major doubts as to whether the size of the cuts and the degree of reforms required can be fully implemented. Therefore a Greek exit from the Euro may only have been delayed by this latest bailout.

4.8 **China** – Government action in 2014 to stimulate the economy did not work as well as expected. The Chinese Government has continued to be very active in 2015 in implementing stimulus measures to try to ensure the economy hits the growth target of 7% for 2015 and to bring some stability after the major fall in the Chinese stock market in August 2015. Many commentators are concerned that recent growth figures have been “massaged” to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of Chinese bank lending and the sustainability of house prices. Overall the Chinese economy is still expected to achieve growth that is much stronger than the EU. However confidence in the Chinese economy remains fragile and lower growth is having a negative impact on the world economy.

4.9 **The UK Economy**

4.10 The economy grew in 2013 by 2.2% and in 2014 by 2.9%. The 2014 growth rate was the strongest UK rate since 2006. It is possible that the UK growth rate for 2015 will again lead the G7 (i.e. seven largest economies) and equal that of the US. However the first quarter was weak at 0.4% with the second quarter being slightly better at 0.7%. The Bank of England’s August Inflation Report included a forecast for growth to remain around 2.4% to 2.8% over the next three years. However subsequent economic data has indicated a likely slowdown in the overall rate of GDP growth. This reflects the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets which has caused difficulties for UK exporters. Falls in business and consumer confidence in September owing to concerns over the economic outlook could also contribute to dampening growth through weakening investment and consumer expenditure. For the recovery to become more balanced and sustainable in the longer term, dependence on consumer expenditure and the housing market must reduce and move to manufacturing and investment expenditure. Economic growth since 2012 has resulted in unemployment falling over the last few years although part of this increase has been reversed.

4.11 In August the Bank of England forecast that inflation would barely get to the 2% target within the next 2-3 years. However, with the price of oil again reducing there could be several more months of low inflation, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

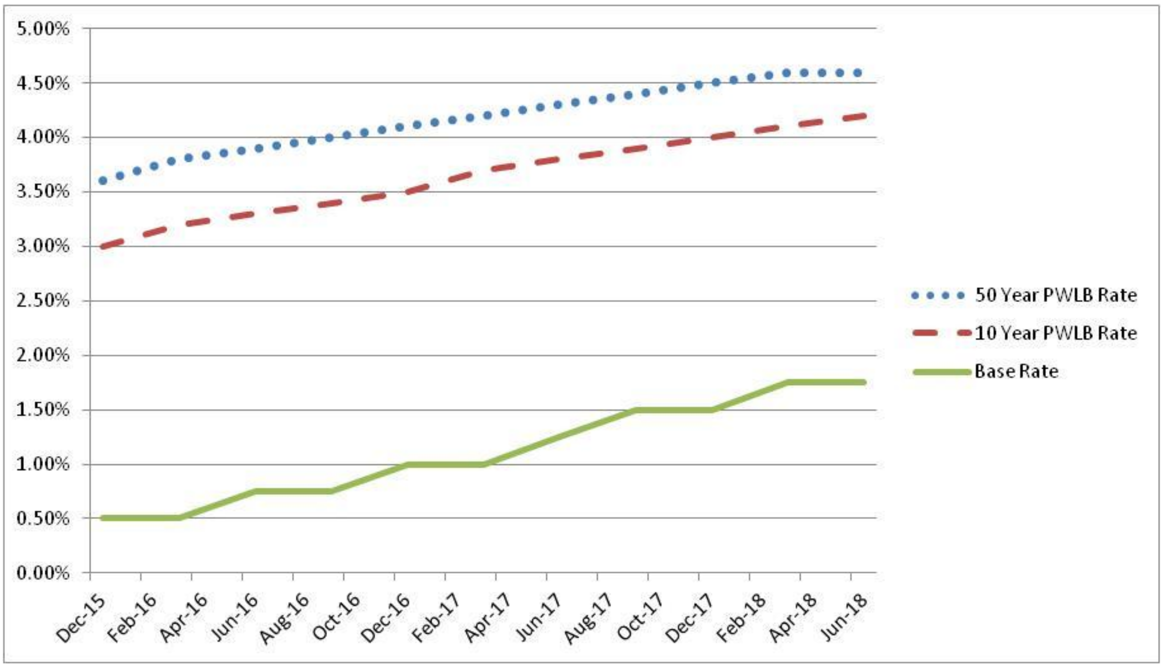
4.12 Therefore there are considerable risks around whether inflation will rise in the near future as strongly as had previously been expected. This will make it more difficult for central banks in the UK and USA to raise rates as soon as previously forecast. The recent major concerns around the slowdown in Chinese growth, falling oil and commodity prices and volatility in equity and bond markets may delay interest rate increases. On the other hand, there are also concerns around the fact that the central banks of the UK and USA have few monetary policy options left to them, given that central rates are near to zero and huge Quantitative Easing is already in place. There are therefore arguments that they will need to raise rates sooner rather than later. However, they are unlikely to raise interest rates until they are sure that growth is securely embedded and zero/negative inflation is not a significant economic threat.

4.13 The forecast for the first increase in Bank Rate has therefore progressively been pushed back from quarter four 2015 to quarter two 2016. Increases after that are likely to be slower paced and to a lower levels than prevailed before 2008, as increases in the Bank Rate will have a much bigger effect on heavily indebted businesses and households than they did before 2008.

4.14 **Interest Rate Forecasts**

4.15 As indicated above forecasting future interest rates remains extremely challenging as the Base Rate has remained unchanged for significantly longer than most economists initially forecast. Capita Asset Services (the Authority's Treasury Management advisors) continue to update their forecasts to reflect statements by the Governor of the Bank of England and changes in the economy. The latest forecasts up to June 2018 are provided in the following graph.

Interest Rate Forecast up to June 2018



5. TREASURY MANAGEMENT OUTTURN POSITION 2014/15

5.1 **Capital Expenditure and Financing 2014/15**

5.2 The Authority's approved capital programme was funded from a combination of capital grants, revenue contributions and prudential borrowing.

5.3 Part of the Authority's treasury management strategy is to address the prudential borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Authority. The wider treasury activity also includes managing the Authority's day to day cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance.

5.4 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £5.656m, of which £0.520m was funded by prudential borrowing. The balance was funded by a mix of Capital Receipts, Government Grants and planned revenue contributions.

5.5 The Authority's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which has been financed from Prudential Borrowing. Each year the Authority is required to apply revenue resources to reduce this outstanding balance.

5.6 Whilst the Authority's CFR sets a limit on underlying need to borrow, the Authority can manage the actual borrowing position by either:

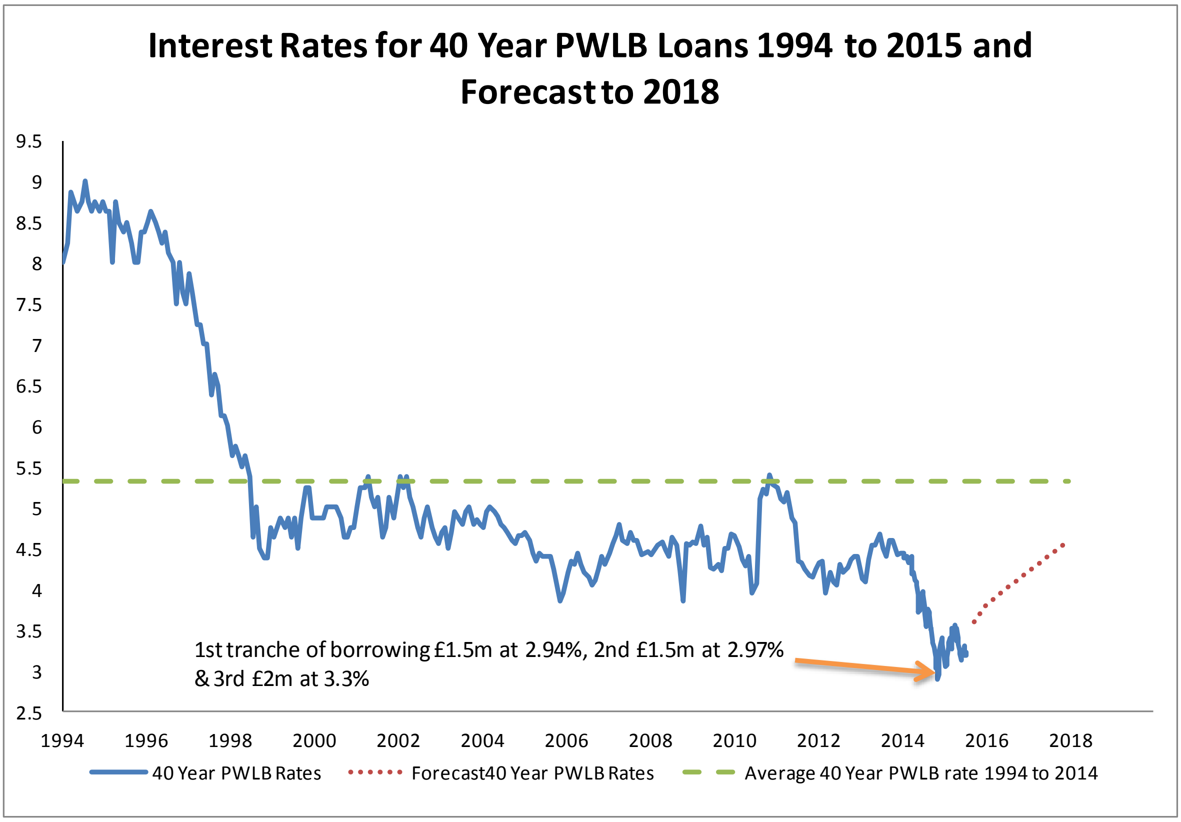
- borrowing externally to the level of the CFR; or
- choosing to use temporary internal cash flow funds instead of borrowing; or
- a combination of the two.

5.7 The Authority's CFR for the year was £4.535m as shown at Appendix A.

5.8 The Authority can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed to be appropriate. In line with the approved Treasury Management Strategy a decision was made to lock out borrowing to cover the forecast borrowing requirement up to and including 2016-17. In December 2014 long term (40 year) PWLB rates fell below 3.5%, their lowest level since 1994 (the earliest date for available PWLB data). Interest rate forecasts indicated a rate rise in late 2015 so a watching brief was kept on rates as the exceptionally low rates available were a good opportunity to secure the business case for the Asset Management Plan at the lowest possible cost.

5.9 In late January 2015 rates fell below 3%. A decision was initially taken to lock out £1.5m borrowing to address existing under-borrowing as rates fell to 2.94%, followed by a further £1.5m a few days later as rates rose to 2.97% to secure the forecast borrowing requirement for 2014-15 and 2015-16. Rates continued to be monitored and as an upward trend developed a final tranche of borrowing of £2m at 3.3% secured the forecast borrowing for 2016-17. Since this borrowing was undertaken long term interest rates have remained above 3.0% and are forecast to increase over the next three years.

5.10 In total £5m has been borrowed at an average rate of 3.04%. The following graph shows long term PWLB rates from 1994 to present and includes the average rate for that period (approximately 5.3%), the current forecast rates and timing of borrowing undertaken outlined above.



5.11 The Authority's total long term external borrowing as at 31st March, 2015 was £7.3m, which funds the CFR up to 2016/17.

5.12 **Prudential Indicators and Compliance Issues 2014/2015**

5.13 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below.

5.14 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. Appendix A demonstrates that during 2014/2015 the Authority has maintained gross borrowing within the Authorised Limit.

5.15 The **Operational Limit** is set below the **Authorised Limit** to provide an early warning sign that the level of borrowing is approaching the Authorised Limit and may potentially require management intervention. The Operation Limit for 2014/15 was set on the basis that the Authority was continuing to net down investments/borrowings in the short term and therefore not expected to undertake new long term borrowing in 2014/15. However, as highlighted in the graph detailed in paragraph 5.10 long term interest rates continued to reduce during the final months of 2014/15 to historically low levels. This position and the future outlook for interest rates was monitored extremely closely, almost on a daily basis, and the decision taken to lock out long term borrowing to fund the Asset Management Plan borrowing requirements for the next three years. Whilst this borrowing was within the Authorised Limit the Operation Limit was exceeded. This position reflected the decision taken to borrow earlier than anticipated to secure historically low fixed interest for the next 40 years and therefore does not require any corrective action to be taken by the Authority. The Operational Limit will be increased in 2015/16 to be more closely aligned with the Authorised Limit and will be set at £7.5m.

5.16 **Net Borrowing and the CFR -** In order to ensure that borrowing levels are prudent the Authority's external borrowing, net of investments, must only be for a capital purpose. The Authority has complied with this Prudential Indicator.

5.17 **The treasury position 31st March 2015**

5.18 The table below shows the treasury position for the Authority as at the 31st March, 2015 compared with the previous year:

Treasury position	31st March 2014		31st March 2015	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	Nil	N/A	£5.3m	3.04%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	**£2.0m**	**3.95%**	**£7.3m**	**3.29%**
Total Investments	**£16.0m**	**0.36%**	**£19.7m**	**0.40%**
Net Investment Position	**£14.0m**		**£12.4m**	

5.19 A key performance indicator shown in the above table is the exceptionally low average rate of external debt of 3.29% for debt held as at 31st March, 2015, compared to historic PWLB rates.

5.20 The Authority's investment policy is governed by Department of Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by Authority on 14th February, 2014.

5.21 The Authority does not rely solely on credit ratings and takes a more pragmatic and broad based view of the factors that impact on counterparty risk. As part of the approach to maximising investment security the Authority has also kept investment periods short (i.e. in most cases up to 3 months but a maximum of 6 months). The downside of this prudent approach is that the Authority achieved slightly lower investment returns than would have been possible if investments were placed with organisations with a lesser financial standing and for longer investment periods. However, during 2014/15 the risk associated with these higher returns would not have been prudent.

5.22 A prudent approach will continue to be adopted in order to safeguard the Authority's resources, although some changes are recommended later in the report.

5.23 **Regulatory Framework, Risk and Performance 2014/15**

5.24 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the DCLG has issued Investment Guidance to structure and regulate the Authority's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

5.25 The Authority has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with Treasury Management activities.

6. TREASURY MANAGEMENT STRATEGY 2015/16 MID-YEAR REVIEW

6.1 The 2015/16 Treasury Management Strategy was approved on the 13th, February, 2015. The Authority's borrowing and investment position as at 31st September 2015 is summarised as follows:

	£m	**Average Rate**
LOBO Loans	2.0	3.95%
PWLB Loans	5.3	3.05%
Gross Debt	**7.3**	**3.29%**
Investments	26.3	0.39%
Net Investment	**19.0**	

6.2 As part of the Treasury Strategy for 2015/16 the Authority set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis. As a consequence of locking out borrowing to secure the exceptionally low rates available in late 2014/15 the Operational Limit for 2015/16 needs to be revised to £7.5m as detailed in paragraph 5.15. Borrowing remains within the Authorised limit.

7. TREASURY MANAGEMENT STRATEGY 2016/17

7.1 Owing to the timing of the Audit and Governance Committee meeting it is not possible to provide detailed prudential indicators as part of the Treasury Management Strategy for 2016/17 prior to this being reported to the full Fire Authority as part of the Medium Term Financial Strategy process. This is because detailed Capital Allocations have not yet been released by the Government, the Council Tax Base has not yet been set and the Net Revenue Budget has not yet been set. However this does not prevent the Committee from scrutinising the proposed Treasury Management Strategy which is presented below.

7.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 8 and 9.

8. BORROWING STRATEGY 2016/17

8.1 Following the development and implementation of the Asset Management Plan (AMP) the Authority's CFR has begun to rise and is forecast to continue to rise over the course of the Medium Term Financial Strategy. Therefore it was recognised that a proactive borrowing strategy would need to be adopted to finance the borrowing element of the AMP and to secure historically low interest rates.

8.2 As outlined in paragraph 5.8 to 5.10, owing to exceptionally low rates and a forecast rise in rates, a decision to borrow to the forecast CFR in 2016/17 has already been made.

8.3 This decision meets the key requirement outlined in the 2015/16 Treasury Management Strategy i.e. to ensure the borrowing costs associated with AMP are minimised in the long term and can be sustained within the existing revenue budget of £0.8m (including using the recommended Capital Funding Phasing Reserve) over:

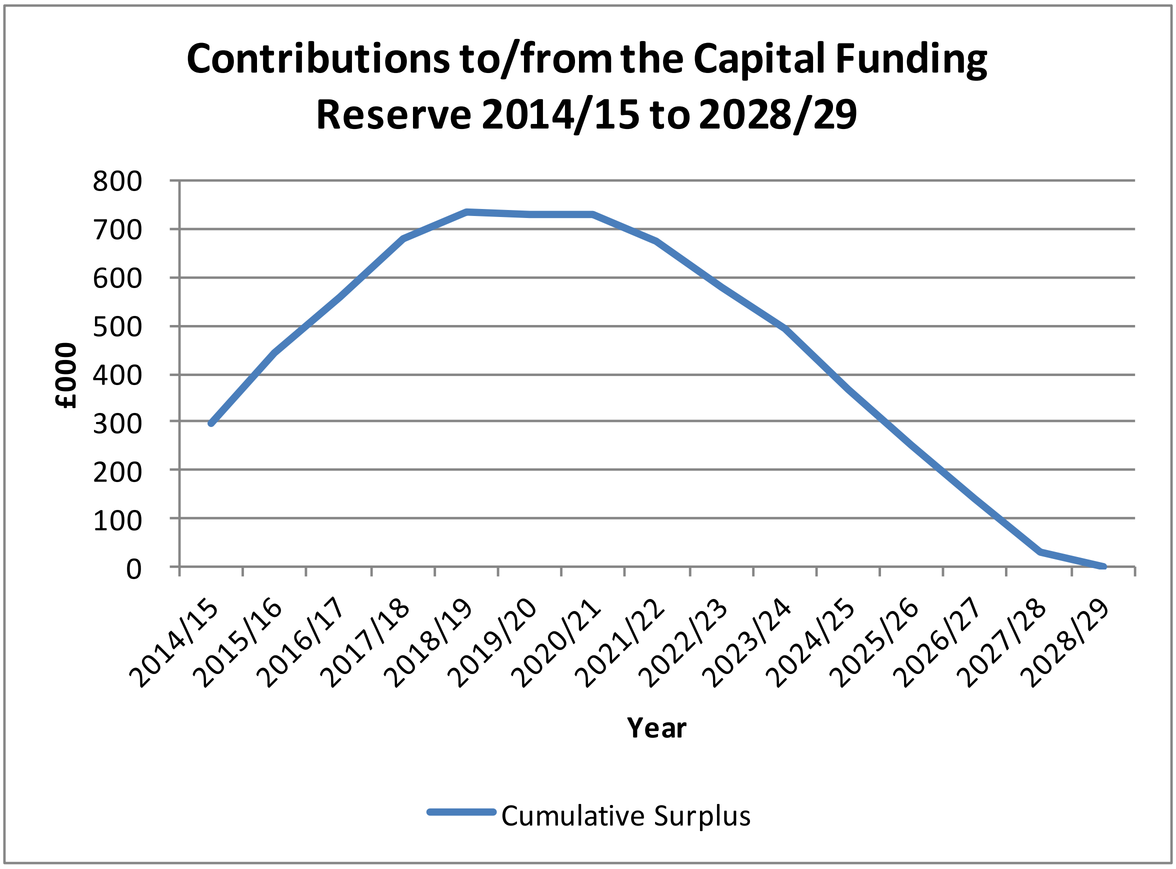
- the period of the current Medium Term Financial Strategy and Integrated Risk Management Plan; and,
- the period beyond 2018/19 to ensure the longer term financial sustainability of the Authority.

8.4 No further borrowing decisions are expected in 2016/17. Capital expenditure in 2016/17 will funded from existing loans.

8.5 **Impact of Capital Programme on the Revenue Budget**

8.6 As previously reported detailed financial modelling has been undertaken to assess the impact of the capital programme on the revenue budget. This analysis indicated that in the short term, loan repayment costs will be less than the approved budget which reflects the phasing of the capital programme and the exceptionally low interest rates secured.

8.7 However, over the period 2020/21 to 2028/29 annual loan repayment costs will exceed the approved revenue budget. As outlined in the approved 2015/16 Strategy this position is being managed by establishing a Capital Phasing Reserve which will balance loan repayment costs over the period 2014/15 to 2028/29. The following graph summarises the contributions to/from the Capital Phasing Reserve over the period 2014/15 to 2028/29. The graph shows that the Capital Phasing Reserve enables loan repayment costs to be funded on a sustainable basis.



9. INVESTMENT STRATEGY 2016/17

9.1 The Department for Communities and Local Government (CLG) issued investment guidance in 2010 and this forms the structure of the Authority's policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. The Authority has adopted the CIPFA Treasury Management Code. In accordance with the Code, the Treasurer has produced Treasury Management Practices covering investment counterparty policy which requires approval each year.

9.2 The primary objectives of the Authority's investment strategy in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time;
- ensuring adequate liquidity;
- investment return.

9.3 **Counterparty Selection Criteria**

9.4 The Authority's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.

9.5 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria

9.6 The Treasurer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.

9.7 As the market continues to return to more "normal" conditions a review of the current counterparty list has been completed. The current counterparty list continues to be limited and the surplus cash flow continues to be invested with the Government's Debt Management Office (DMO) which offers extremely low investment rates. It is therefore recommended that the following additions to the investment counterparty list are made:

- Use of Treasury Bills/Gilts
  It is possible to invest with the UK Government at a higher rate of interest through the purchase of Treasury Bills/Gilts. UK Treasury Bills/Gilts have the same credit rating (i.e. AAA/AA+) as deposits placed with the Government Debt Management Office (DMO). They are issued weekly for a duration of one, three or six months and in the case of Gilts, for longer periods. Treasury Bills/Gilts are Government debt whereby money is invested with the Government for a specified period of time at a fixed rate of interest and there is no risk to the principal invested.

The Authority cannot invest in these instruments directly without opening a ‘custody account’ which is required for purchasing these instruments, the costs of which range from £50,000 to £130,000. However access can be gained using a custodian who administer and manage Treasury Bills/Gilts on behalf of the Authority. The decisions regarding the investment of temporary cash in UK Treasury Bills/Gilts remains the Authority’s decision and on a day to day basis will be managed by myself as Treasurer to the Authority. It is recommended that the Authority approve the use of Treasury Bills/Gilts and engage King and Shaxson as a custodian. King and Shaxson, is regulated by the Financial Conduct Authority (FCA) and currently provide custody services to 235 local authorities, typically managing £4 billion of Local Authority investments.

The provision of the custodian account is free and the administrative cost of using the custodian account, which equate to 3 basis points (i.e. 0.03%) will be funded from the increased investment income earned from investing in UK Government Treasury Bills/Gilts.

- Additional Banking Counterparty
  As part of its 2015/16 Treasury Management Strategy Hartlepool Borough Council (which provides the Treasury Management Service to the Authority) added the Swedish Bank, Svenska Handelsbanken to their counterparty list. The Council has been satisfied with this new counterparty, whose ratings have remained strong throughout the financial crisis never falling below the Category A ratings in the table of investment criteria outlined below (Sweden has retained its AAA sovereign rating throughout the crisis). It is recommended that the Authority adds this bank to their counterparty list. Investments with this bank will be limited to £1m and for a maximum duration of three months or instant access.

9.8 The following table shows the proposed limits in 2016/17 for the Authority:

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£5m	1 year
B	F1/A-	P-1/A3	A-1/A-	£3m	1 year
C	Debt Management Office/Treasury Bills/Gilts			£14m	1 year
D	Nationalised Banks and Banks covered by UK Government Guarantee			£5m	1 year
E	Other Local Authorities Individual Limits per Authority: - £2m County, Metropolitan or Unitary Councils - £1m District Councils, Police or Fire Authorities.			£15m	1 year
F	Three Money Market Funds (AAA) with maximum investment of £1.5m per fund			£4.5m	Liquid (instant access)
G	Svenska Handelsbanken			£1m	3 months

9.9 **Specified and Non-Specified Investments**

9.10 CLG regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.

9.11 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of high quality counterparties for the Authority to use rather than defining what its investments are.

9.12 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
- Other Local Authorities.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

9.13 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:

- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
- Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

9.14 **Benchmarking**

9.15 A requirement in the revised Codes is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance, however as outlined in paragraph 9.2, investment return is less important to the Authority than security and liquidity of investments. Security and liquidity benchmarks are new requirements and benchmarks in these areas are significantly less developed. The application of these is also more subjective in nature.

9.16 These benchmarks are simple targets (not limits) and the purpose of the benchmark is to assist monitoring and illuminate any changes to the strategy.

9.17 The benchmark for monitoring security is based on the historical risk of default associated with the credit rating of an organisation. The higher rated counterparties have a lower rate of historic default.

9.18 The following table sets out the historic default percentages for each type of credit rated institution and the period of deposit.

	Maturity Period				
Years	**1**	**2**	**3**	**4**	**5**
AAA	0.04%	0.09%	0.17%	0.25%	0.34%
AA	0.01%	0.03%	0.13%	0.28%	0.43%
A	0.06%	0.20%	0.37%	0.58%	0.81%
BBB	0.15%	0.50%	0.91%	1.43%	1.91%
BB	0.71%	2.21%	3.94%	5.68%	7.20%
B	3.15%	7.44%	11.46%	15.20%	18.40%
CCC	22.21%	31.48%	37.72%	41.81%	45.20%

9.19 The Authority has an extremely cautious investment strategy and this has avoided investment default. As a result the Authority has never suffered investment loss. It is expected that the recommended changes to the investment strategy will avoid investment default. However the Authority still needs to set a formal limit. It is therefore suggested that the Authority will aim to ensure that the historic default probability of its investment portfolio will not exceed 0.2%.

9.20 An additional proposed benchmark is the average risk of default. This is based on the historic risk of default multiplied by the value of each investment. It does not constitute the actual expectation of loss. Rather it is intended to give a guide as to the relative security of investments. For the forthcoming year this is expected not to exceed £100,000.

9.21 To ensure adequate Liquidity the Authority maintains a bank overdraft facility of £0.5m. In addition the Authority will make use of call accounts to enable cash to be obtained with immediate notice. The proposed benchmark for monitoring liquidity is 'Weighted Average Life'. This reflects the average number of days to maturity for investments and therefore gives an indication of the liquidity profile of investments held. For the forthcoming year because of the lack of value obtainable for deposits exceeding 12 months and the need to ensure maximum security this benchmark is expected to be 0.5 years, with a maximum of 1 year.

10. MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2016/17

10.1 There are two elements to the Authority annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Authority is required to pay off an element of the CFR each year through a revenue charge called the Minimum Revenue Provision (MRP).

10.2 CLG Regulations require the Authority to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue account. The budget strategy is based on the following MRP statement and the Authority is recommended to formally approve this statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;

- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

10.3 **CIPFA Treasury Management Code of Practice**

10.4 The Authority has adopted the CIPFA Treasury Management Code of Practice. Confirmation of this is the first prudential indicator.

10.5 **Treasury Management Advisors**

10.6 The Authority uses Capita Asset Services – Treasury as its external treasury management advisors.

10.7 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

10.8 It 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 Authority 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.

11. CONCLUSION

11.1 Against the uncertain national background and the requirement to make significant budget reductions to balance the 2016/17 to 2018/19 budget the Authority has secured long term borrowing at historically low interest rates. This has secured the financing of the Asset Management Plan and has protected the authority against increases in longer term interest rates.

11.2 The report confirms the previously approved strategy for managing interest rate risks with the aim of ensuring the borrowing requirement can be funded from the available revenue budget of £0.8m and use of the Capital Funding Phasing reserve.

11. 3 In relation to the investment strategy the Authority has adopted an extremely prudent approach over the last few years. An updated assessment of potential risk has been completed and in response to reductions in investment counter parties it is recommended that the Authority approves the revised counterparty criteria as set out in paragraphs 9.7 and 9.8.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

Appendix A

Prudential Indicators 2014/15 Outturn

1. Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. The outturn is lower than the estimate, mainly as a result of the very low rates of interest on and under borrowing against the CFR until the final quarter of the financial year.

2014/15 Estimate		2014/15 Outturn
2.01%	Ratio of Financing costs to net revenue stream	1.40%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year and the outturn reflects the actual phasing of capital expenditure.

2014/15 Estimate £'000		2014/15 Outturn £'000
5,556	Capital Expenditure	5,656

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme.

2014/15 Estimate £'000		2014/15 Outturn £'000
520	Capital Expenditure Financed by Borrowing	520

4. Capital Financing Requirement

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority’s Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2014/15 Estimate £'000		2014/15 Outturn £'000
4,578	Capital Financing Requirement	4,535

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the authority flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

2014/15 Limit £'000		2014/15 Peak £'000
8,000	Authorised limit for external debt	7,320

Additional borrowing was undertaken during the year to secure certainty in relation to the ongoing cost of delivering the Asset Management Plan.

6. Operational Boundary for External Debt

The **Operational Limit** is set below the **Authorised Limit** to provide an early warning sign that the level of borrowing is approaching the Authorised Limit and may potentially require management intervention. The Operation Limit for 2014/15 was set on the basis that the Authority was continuing to net down investments/borrowings in the short term and therefore not expected to undertake new long term borrowing in 2014/15. However, as highlighted in the graph detailed in paragraph 5.10 long term interest rates continued to reduce during the final months of 2014/15 to historically low levels. This position and the future outlook for interest rates was monitored extremely closely, almost on a daily basis, and the decision taken to lock out long term borrowing to fund the Asset Management Plan borrowing requirements for the next three years. Whilst, this borrowing was within the Authorised Limit the Operation Limit was exceeded. This position reflected the decision taken to borrow earlier than anticipated to secure historically low fixed interest for the next 40 years and does therefore not require any correct action to be taken by the Authority.

2014/15 Limit £'000		2014/15 Peak £'000
6,000	Operational boundary for external debt	7,320

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

2014/15 Limit £'000	Upper limits on fixed and variable interest rate exposure	2014/15 Peak £'000
100%	Fixed Rates	100%
75%	Variable Rates	0%

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

	Upper Limit	Lower Limit	Actual by Maturity Date	Actual by soonest call date
Under 12 months	100%	0%	1%	1%
12 month to 2 years	100%	0%	3%	3%
2 years to 5 years	100%	0%	4%	31%
5 years to 10 years	100%	0%	4%	4%
10 years to 20 years	100%	0%	10%	10%
20 years to 30 years	100%	0%	14%	14%
30 years to 40 years	100%	0%	37%	37%
40 years to 50 years	100%	0%	0%	0%
50 years to 60 years	100%	0%	0%	0%
60 years to 70 years	100%	0%	27%	0%

The Authority's current outstanding borrowing includes a LOBO (Lender Option Buyer Option) loan which provide fixed interest rates for defined periods and also defined dates for reviewing interest rates, known as 'call dates'. A change to the Prudential Code requires that the call date is reflected in the Maturity Structure indicator above rather than maturity date. However the likelihood of a LOBO being 'called' at present is very low and both methods are presented above for completeness.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy, this is in line with the Treasury Management Strategy. Consequently all investments made during the year were limited to less than one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	0	0	0
Actual	0	0	0

APPENDIX 2

TREASURY MANAGEMENT STRATEGY 2016/17 REGULATORY INFORMATION AND PRUDENTIAL INDICATORS

1. INTRODUCTION

1.1 The Audit and Governance Committee considered the Treasury Management Strategy for 2016/17 on 13th November 2015. The Audit and Governance Committee approved the recommended Borrowing and Investment Strategy. However, owing to the timing of funding announcements from the Government, it was not possible to present detailed prudential indicators to the Audit and Governance Committee. The Audit Governance Committee noted that these would be reported to the full Fire Authority and are detailed in this Appendix. The late announcement of this information does not impact on the recommended strategy as the capital funding announcements relate to capital grant allocations which fully fund defined Government capital spending priorities.

2. PRUDENTIAL INDICATORS

2.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and set prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity.

2.2 The first prudential indicator is confirmation that the Authority has adopted the CIPFA Treasury Management Code of Practice, which the Treasury Management Strategy report confirms.

2.3 Details of the proposed prudential limits are set out in the following sections.

3. CAPITAL EXPENDITURE AND FINANCING REQUIREMENT

3.1 The Authority's Borrowing Strategy is driven by the Capital Financing Requirement (CFR) and the Authority's view of interest rates. The CFR is the total outstanding capital expenditure which has not yet been paid for from revenue budgets. It is essentially a measure of the Authority's underlying borrowing need based on capital programmes approved by the Authority in previous years.

3.2 The Government no longer issues supported borrowing allocations. Consequently all borrowing is now made under the Prudential Borrowing Code. Capital spending decisions need to have regard to the following;

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the Council Tax);
- Practicality (e.g. the achievability of the forward plan).

3.3 The Authority ultimately needs to fund the CFR by borrowing money from the Public Works Loan Board (PWLB) or banks. The CFR is then repaid over a number of years reflecting the long term benefits of capital expenditure. In simple terms the CFR represents the Authority's outstanding mortgage, although the legislation and accounting requirements are significantly more complex.

3.4 The estimated Capital Finance & Borrowing Requirement is shown in the following table:

Capital Financing & Borrowing Requirement	2015/16 Revised £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
CFR at 1st April	**4,535**	**4,675**	**5,139**	**7,018**
Capital Expenditure Financed by Borrowing	561	878	2,277	580
Less Repayment of CFR	(421)	(414)	(398)	(403)
CFR at 31st March	**4,675**	**5,139**	**7,018**	**7,195**

3.5 As part of the Medium Term Financial Strategy the Authority is required to approve the 2016/17 capital programme summarised as follows:

Capital Expenditure	2015/16 Revised £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Expenditure	7,623	9,025	4,078	646
Financed by:				
Capital grants and contributions	4,371	0	0	0
Reserves	2,691	8,147	1,801	66
Prudential Borrowing	561	878	2,277	580
Total Funding	**7,623**	**9,025**	**4,078**	**646**

4. AFFORDABILITY PRUDENTIAL INDICATORS

4.1 The affordability of the approved Capital Investment Programme was assessed when the Asset Management Plan was approved and revenue costs are built into the Medium Term Financial Strategy. The 'Affordability Prudential Indicators' are detailed below and are intended to give an indication of the affordability of the planned capital expenditure financed by borrowing in terms of the impact on Council Tax and the Net Revenue Stream.

4.2 Incremental Impact of Capital Expenditure on Council Tax

4.3 This indicator identifies the revenue costs associated with new schemes included in the three year Capital Programme recommended in the budget strategy report compared to the Authority's existing approved commitments and current plans. The incremental impact of capital expenditure on Council Tax reflects the phasing of prudential borrowing.

	Revised	Forward Projection	Forward Projection	Forward Projection
	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
CouncilTax - Band D	£0.08	£0.13	£0.33	£0.08

4.4 Ratio of Financing Costs to Net Revenue Stream

4.5 This shows the net cost of capital borrowing as a percentage of the net budget and the forecast annual increases reflect the phasing of borrowing to partly fund the Asset Management Plan.

%	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	2.06%	2.13%	2.34%	2.45%

5. BORROWING PRUDENTIAL INDICATORS

5.1 Debt Projections 2015/16 – 2018/19

5.2 The table below sets out the Authority's projected Capital Financing Requirement (CFR) and level of debt:

Debt and Investment Projections	2015/16 Revised £'000	2016/17 Estimated £'000	2017/18 Estimated £'000	2018/19 Estimated £'000
Long Term Borrowing 1 April	7,320	7,230	7,137	7,041
Expected change in Long Term Debt	(90)	(93)	(96)	154
Debt at 31 March	**7,230**	**7,137**	**7,041**	**7,195**
CFR	**4,675**	**5,139**	**7,018**	**7,195**
Advance/(Under) Borrowing	**2,555**	**1,998**	**23**	**0**

5.3 The table shows that in the short term borrowing will exceed the CFR. This reflects the decision taken to fund capital expenditure in advance of need to secure exceptionally low long term interest rates of 3.04% as outlined in Appendix 1 paragraph 5.8 to 5.10

5.4 Limits to Borrowing Activity

5.5 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

5.6 The Authority needs to ensure that 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 2016/2017 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. The following table demonstrates that although borrowing will exceed the CFR in the short term it will not in the medium term. This reflects the decision taken to secure borrowing at exceptional low interest rates to fund future capital expenditure as outlined in Appendix 1.

External Debt	**2015/16 Revised £'000**	**2016/17 Estimated £'000**	**2017/18 Estimated £'000**	**2018/19 Estimated £'000**
Gross Borrowing	7,230	7,137	7,041	7,195
Capital Financing Requirement	**4,675**	**5,139**	**7,018**	**7,195**

5.7 The following table shows two key limits for the monitoring of debt. The Operational Limit is the likely limit the Authority will require and is aligned closely with the actual CFR on the assumption that cash flow is broadly neutral. The Authorised Limit for External Debt is a further key prudential indicator to control the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. In practice it needs to take account of the range of cash flows that might occur for the Authority in addition to the CFR. This also includes the flexibility to enable advance refinancing of existing loans.

Borrowing Limits	**2015/16 Estimated £'000**	**2016/17 Estimated £'000**	**2017/18 Estimated £'000**	**2018/19 Estimated £'000**
Operational Limit	7,500	10,000	10,000	10,000
Authorised limit	8,000	12,000	12,000	12,000

6. INVESTMENT PRUDENTIAL INDICATORS AND OTHER LIMITS ON TREASURY ACTIVITY

6.1 Investment Projections 2015/16 – 2018/19

6.2 The following table sets out the estimates for the expected level of resource for investment or use to defer long term borrowing.

2014/15 Outturn £'000	Year End Resources	2015/16 Revised £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
16,489	Balances and Reserves	14,771	5,635	3,226	2,811
163	Provisions	0	0	0	0
679	Collection fund Adjustment Account*	0	0	0	0
17,331	**Total Core Funds**	**14,771**	**5,635**	**3,226**	**2,811**
595	Working Capital**	600	600	600	600
17,926	**Resources Available for Investment**	**15,371**	**6,235**	**3,826**	**3,411**
2,785	(Under)/Advance borrowing	2,555	1,998	23	0
20,711	**Expected Investments**	**17,926**	**8,233**	**3,849**	**3,411**

* It is not possible to estimate the Collection Fund Adjustment Account balance owing to the uncertainty in relation to business rates.
** The working capital balance is an estimate of debtors and creditors at year end based on the average working capital over the last three years.

6.3 Sensitivity to Interest Rate Movements

6.4 Sensitivity to Interest Rate Movements is a prudential indicator that the Authority is required to disclose. The following table highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. These forecasts are based on a prudent view of a +/- 1% change in interest rates. As borrowing has been taken out to advance fund the Asset Management Plan there is no risk in relation to the impact of borrowing on revenue budgets for 2016/17. For investments they are based on a prudent view of the total amount invested.

Impact on Revenue Budgets	2016/17 Estimated 1% £'000	2016/17 Estimated -1% £'000
Interest on Borrowing	0	0
Investment income	(82)	82
Net General Fund Borrowing Cost	**(82)**	**82**

6.5 There are four further treasury activity limits and the purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

6.6 The limits are:

i) Upper limits on variable interest rate exposure – This identifies a maximum limit for the percentage of the Authority's borrowing and investments that are held with variable interest rates. The proposed limits are detailed in the following table.

Limits on Variable Interest Rates	2016/17 Upper £'000	2017/18 Upper £'000	2018/19 Upper £'000
Borrowing	7,500	7,500	7,500
Investments	20,000	15,000	10,000

ii) Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit for the percentage of the Authority's borrowing and investments that are held with fixed interest rates.

Limits on Fixed Interest Rates	2016/17 Upper £'000	2017/18 Upper £'000	2018/19 Upper £'000
Borrowing	10,000	10,000	10,000
Investments	30,000	25,000	20,000

iii) Maturity structure of borrowing – Limits for the 'Maturity Structure of Borrowing' are intended to reduce exposure to large fixed rate sums falling due for refinancing. In the opinion of the Treasurer limits on fixed and variable rates for **borrowing** are unhelpful and could lead to higher costs of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. In the Treasurer's professional opinion this proactive management of investments and borrowing continues to provide the most cost effective strategy for the Authority, whilst not exposing the Authority to unnecessary risk. The Authority should ensure maximum flexibility to minimise costs to the revenue budget in the medium term. These limits are detailed in the following table:

Maturity Structure of fixed interest rate borrowing				
	2015/16 £000 Lower Limit	2015/16 £000 Upper Limit	2016/17 £000 Lower Limit	2016/17 £000 Upper Limit
Under 12 months	0	6,000	0	8,000
12 months to 2 years	0	7,500	0	10,000
2 years to 5 years	0	7,500	0	10,000
5 years to 10 years	0	7,500	0	10,000
10 years to 20 years	0	7,500	0	10,000
20 years to 30 years	0	7,500	0	10,000
30 years to 40 years	0	7,500	0	10,000
40 years to 50 years	0	7,500	0	10,000
50 years to 60 years	0	7,500	0	10,000
60 years to 70 years	0	7,500	0	10,000

The limits allow for borrowing up to the Capital Financing Requirement at either variable or fixed rates. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the temporary use of variable rate borrowing in the interim.

iv) Maximum principal sums invested – Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority's liquidity requirements and reflect the current recommended advice that investments are limited to short term investments i.e. up to 1 year.

Limit for Maximum Pincipal Sums Invested > 364 days			
	1 year £000	2 years £000	3 years £000
Maximum	10,000	0	0

6.7 Performance Indicators

6.8 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The Authority will produce the following performance indicators for information and explanation of previous treasury activity:

- Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – returns compared to the 7 day LIBID rate