Appendix 5

1. Introduction

1.1 The CIPFA Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing and to prepare an Investment Strategy each financial year. CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 This strategy takes into account the impact of the Council's Revenue Budget, Medium Term Capital Programme and the Balance Sheet position. The Prudential Indicators and the outlook for interest rates are also considered within the strategy.

1.3 The Treasury Management Strategy for 2014-15 covers the following areas:

- economic overview (section 2);
- the treasury position (section 3);
- the borrowing strategy to finance the capital plans (section 4);
- the investment strategy(section 5);
- the Minimum Revenue Provision (MRP) strategy(section 6); and
- policy on use of external service provider(section 7);

1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix 1.

2. Economic Overview

2.1 The Council appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The Table 2 below gives the Capita Asset Services central view for short term (Bank Rate) and longer fixed interest rates.

Table 2

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.40
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.50	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.20	5.00	5.10
Jun 2016	0.50	3.30	5.10	5.20

2.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and lowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

2.3 The current economic outlook and structure of market interest rates and government debt yields have several key treasury mangement implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

2.4 Given the current low rates of interest available, the Council has given consideration to possible future tranches of borrowing. In the short term this may lead to a 'cost of carry' as the interest rate on debt is higher than the rate at which we are earning interest on investments. However, from a medium to long term perspective, borrowing at these levels will save the Council many millions of pounds as forecasts for borrowing rates increase due to inflationary pressures in the system.

3. Treasury Management Position

3.1 The Council's projected treasury portfolio position at 31 March 2014, with forward estimates is summarised in Table 1 below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 1

	2013/14	**2014/15**	**2015/16**	**2016/17**
	Projected	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
External Borrowing				
Borrowing at 1 April	264.24	262.92	358.97	355.01
New Borrowing	-	100.00	-	-
Loan Redemption	(1.3)	(3.95)	(3.95)	(4.61)
Actual borrowing at 31 March	**262.92**	**358.97**	**355.01**	**350.40**
***CFR – the borrowing need**	**276.65**	**360.70**	**344.74**	**328.13**
Under/(over) borrowing	**13.73**	**1.73**	**(10.27)**	**(22.27)**

**The Council's Capital Financing Requirement (CFR) is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.*

3.2 Within the set of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total borrowing, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current and next two financial years.

3.3 As at the end of 2013/14 the Council is £13.73m under borrowed and this decreases as the Capital Finance Requirement decreases due to the annual charge for repayment of debt in the coming years, combined with a series of longer-term loan redemptions. The Council is required to repay an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP).

3.4 The Council has a number of long-term loans and will aim to repay some these loans as soon as there is an increase in interest rate, which will make carrying this loan at its current rate expensive.

3.5 Future loan will be arranged giving consideration to the various debt repayment options, including an Equal Instalments of Principal (EIP) arrangement, where each payment includes an equal amount in respect of loan principal. Therefore the interest due with each payment reduces as the principal is eroded, and the total amount reduces with each instalment.

4. Borrowing Strategy

4.1 This strategy is prudent as investment returns are low and counterparty risk is high, however as interest rates are low the Council may wish to take advantage of this by securing fixed rate funding and reduce the under borrowed position.

4.2 The net borrowing requirement within Table 1 above shows based on current estimates, that the Council will need to take out a significant amount of new borrowing, to support the capital programme. Any new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Policy on Borrowing in Advance of Need

4.3 The Council will not borrow purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

4.4 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the reporting mechanism.

Prudential & Treasury Indicators

4.5 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008 with a fully revised version being published in 2009 to incorporate changes towards implementing IFRS.

4.6 A full set of Prudential Indicators and borrowing limits are shown in Appendix 2.

Debt Rescheduling

4.7 Officer continue to regularly review opportunity for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

4.8 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.9 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.10 All rescheduling will be agreed by the Chief Finance Officer.

Sensitivity of the Forecast and Risk Analysis

4.11 Treasury management risks are identified in the Council's approved Treasury Management Practices, the main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

4.12 Council officers, in conjunction with the treasury advisers, will monitor these risks closely. Particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate; and
- counterparty risk – the Council follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

5. **Investment Strategy**

5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Capita Asset Services al Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

5.2 Investment instruments identified for use in the financial year are listed in section 5.15 and 5.18 under the 'Non-Specified and Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Credit worthiness Policy

5.3 Officers regularly review the investment portfolio, counterparty risk and construction, and use market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets

5.4 Additionally, this Council applies regarding the creditworthiness includes service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.5 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties (Appendix 6) within the following durational bands provided they are domiciled in the UK or AAA countries only:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

5.6 The Capita Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

5.7 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.8 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.9 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified investment sections; and
- It has sufficient liquidity in its investments.

5.10 The Capita Asset Services methodology was revised in October 2013 and determines the maximum investment duration under the credit rating criteria. Key features of Capita Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Capita Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Capita Asset Services colour which is associated with a maximum suggested time boundary.

5.11 The Capita Asset Services colours and the maximum time periods are shown para 5.5 above. In the Capita Asset Services methodology if counterparty has no colour then they are not recommended for investment and this would remove these counterparties from the Council's counterparty list.

Country Limits

5.12 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4.

5.13 The exception will be the UK. The UK continues to enjoy an AA+ sovereign rating. However the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Specified Investments

5.14 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - o The United Kingdom Government;
    - o A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - o High credit quality is defined as a minimum credit rating as outlined in section 5.15 of this strategy.

5.15 **The use of Specified Investments -** Investment instruments identified for use in the financial year are as follows:

- Table 3 below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AAA sovereign rated countries.
- The Council's investment in Lloyds Banking Group were based on the fact that this group is part-nationalised by UK Government, and any changes to their credit ratings will impact on the duration of the Council investment with the Group.

5.16 Criteria for Specified Investments:

Table 3

Counterparty	Country/Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	unlimited	12 months
Government Treasury blls	UK	Term Deposits	unlimited	12 months

Local Authorities	UK	Term Deposits	unlimited	12 months
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£60m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£60m	1 yr
Barclays	UK		£60m	1 yr
Santander UK	UK		£60m	1 yr
HSBC	UK		£60m	1 yr
Individual Money Market Funds	UK/Ireland/ domiciled	AAA rated Money Market Funds	£60m	Liquidity/instant access
Counterparties in select countries (non-UK) with a Sovereign Rating of at least AAA				
Australia & New Zealand Banking Group	Australia	Term Deposits/Call Accounts	£60m	1 yr
Commonwealth Bank of Australia	Australia	Term Deposits/Call Accounts	£60m	1 yr
National Australia Bank	Australia	Term Deposits/Call Accounts	£60m	1 yr
Westpac Banking Corporation	Australia	Term Deposits/Call Accounts	£60m	1 yr
Royal Bank of Canada	Canada	Term Deposits/Call Accounts	£60m	1 yr
Toronto Dominion	Canada	Term Deposits/Call Accounts	£60m	1 yr
Nordea Bank Finland	Finland	Term Deposits/Call Accounts	£60m	1 yr
Cooperatieve Centrale Raiffeisen Boerenlleenbank BA	Netherlands	Term Deposits/Call Accounts	£60m	1 yr
Development Bank of Singapore	Singapore	Term Deposits/Call Accounts	£60m	1 yr
Oversea Chinese Banking Corp	Singapore	Term Deposits/Call Accounts	£60m	1 yr
United Overseas Bank	Singapore	Term Deposits/Call Accounts	£60m	1 yr
Svenska Handelsbanken	Sweden	Term Deposits/Call Accounts	£60m	1 yr

Nordea Bank AB	Sweden	Term Deposits/Call Accounts	£60m	1 yr

Non Specified Investments

5.17 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 in Table 4 below. Non specified investments would include any sterling investments.

5.18 Criteria for Non Specified Investments:

Table 4

Specified Investment	Minimum credit criteria / colour band	Maximum investments	Max. maturity period
UK Local Authorities	Government Backed	£60m	2 years

5.19 **Lending to third parties**

- The Council has the power to lend monies to third parties subject to a number of criteria. Any loans to or investments in third parties will be made under the Well Being powers of the Council conferred by section 2 of the Local Government Act 2000 or permitted under any other act.
- The Well Being power can be exercised for the benefit of some or all of the residents or visitors to a local authority's area. The power may also be used to benefit organisations and even an individual.
- Loans of this nature will be under exceptional circumstances and must be approved by Cabinet.
- The primary aims of the Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan.
- Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating as outlined in section 2. In order to ensure security of the Authority's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Authority will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where deemed necessary additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company.

Investment Position and Use of Council's Resources

5.20 Investment returns expectations**.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%

- 2015/16 0.50%
- 2016/17 1.00%

5.21 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

5.22 The Capita Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 2.00%

5.23 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

5.24 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months).

5.25 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to100 days) in order to benefit from the compounding of interest.

Banking Services

5.26 NatWest, which is UK Government backed, currently provides banking services for the Council. The current strategy does not allow NatWest to be used as counterparty due to its rating being downgraded, but the bank will continue to be used for short term liquidity requirements.

6. Minimum Revenue Provision

6.1 The Council is required to repay an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

6.2 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Policy in Appendix 3.

6.3 The Council, in conjunction with its Treasury Management advisors, has considered the MRP policy to be prudent.

7. Policy on the use of External Service Providers

7.1 The Council uses Capita Asset Services as its external treasury management advisors.

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

7.3 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 Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8. Background Documents

Cabinet 29 January 2013 Treasury Management Strategy for 2013/14
15 July 2013 Treasury Management Stewardship Report 2012/13
12 November 2013 Half year review for 2013/14
Audit Best Value and Community Services Scrutiny Committee
24 June 2013 Treasury Management Stewardship Report 2012/13
5 November 2013 Half year review for 2013/14
CIPFA Prudential Code
CIPFA Treasury Management in the Public Services- Code of practice
Local Government Act 2003 Local Government Investments –Guidance from the former Office of the Deputy Prime Minister

9. List of Annexes

Annex 1: Treasury Management Scheme of Delegation

Annex 2: The Prudential & Treasury Indicators

Annex 3: Minimum Revenue Provision (MRP) Policy Investment Strategy

Annex 4: Approved countries for investments

Annex 5: Comment from Capital Asset Services (our Treasury advisors) on the outlook for 2014/15

Annex 6: New Counterparty list

Treasury Management Scheme of Delegation

1. Full Council

1.1 In line with best practice, full Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

a) **Prudential and Treasury Indicators and Treasury Strategy (This report)**
The first and most important report covers:
- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

b) **A Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision.

c) **An Annual Treasury Management Stewardship Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2. Cabinet

- Approval of the Treasury Management quarterly update reports
- Approval of the Treasury Management outturn report.

3. Audit, Best Value and Community Services Scrutiny Committee

- Scrutiny of performance against the strategy.

4. The Treasury Management Role of the Section 151 Officer

4.1 The Section 151 (responsible) Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

5. Training **-** Treasury Management training for committee members will be delivered as required to facilitate more informed decision making and challenge processes.

1. The Prudential and Treasury Indicators

1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1.2 **Capital Expenditure**. This prudential Indicator shows the Council's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure excludes spend on PFI and leasing arrangements, which are now shown on the balance sheet.

1.3 The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Table 5

Description	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Capital Expenditure	123.5	152.0	84.0	43.9	46.6
Financed by:					
Capital receipts	-	(12.0)	(0.6)	-	-
Capital grants	(82.2)	(52.2)	(48.6)	(35.4)	(39.1)
Contributions	(5.3)	(7.9)	(13.6)	(7.6)	(7.5)
Capital Reserves	(36.0)	-	(2.0)	-	-
Net financing need for the year	-	79.9	19.2	0.9	-

1.4 The Council's borrowing need (the Capital Financing Requirement) - The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

1.6 Following accounting changes, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought on the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The current Council CFR below include £93m of these liabilities.

Table 6

	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2016/17 Estimate
Capital Financing Requirement					
	£m	**£m**	**£m**	**£m**	**£m**
CFR	277	361	345	328	312
CFR – PFI/Leases	93	89	86	83	79
Total CFR	**370**	**450**	**431**	**411**	**391**
Movement in CFR	**(17)**	**80**	**(20)**	**(20)**	**(20)**

Movement in CFR represented by					
Net financing need for the year (above)	**(1)**	**96**	**(4)**	**(5)**	**(5)**
Less MRP/VRP	**(12)**	**(12)**	**(12)**	**(12)**	**(12)**
Less MRP - PFI/Leases	**(4)**	**(4)**	**(4)**	**(3)**	**(3)**
Movement in CFR	**(17)**	**80**	**(20)**	**(20)**	**(20)**

1.7 **The Operational Boundary.** This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Table 7

Description	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Borrowing	287	372	355	338	322
PFI/Leases	93	89	86	83	79
Total	**380**	**460**	**441**	**421**	**401**

1.8 **The Authorised Limit for external borrowing**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Table 8

Description	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Borrowing	307	392	375	358	342
PFI/Leases	93	89	86	83	79
Total	**400**	**480**	**461**	**441**	**421**

2. Treasury Management Limits on Activity

2.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 9

	2014/15	**2015/16**	**2016/17**
Interest rate exposures	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2014/15			
		Lower	Upper
Under 12 months		0%	25%
12 months to 2 years		0%	40%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years to 20 years		0%	80%
20 years to 30 years		0%	80%
30 years to 40 years		0%	80%
40 years to 50 years		0%	80%

2.2 **Affordability Prudential Indicators - The** previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.3 **Actual and estimates of the ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 10

Description	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	%	%	%	%	%
	6.61	6.89	8.31	8.60	8.46

2.4 **Estimates of the incremental impact of capital investment decisions on council tax**. This indicator identifies the revenue costs associated with proposed changes to the four year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a four year period.

2.5 **Incremental impact of capital investment decisions on the band D council tax**

Table 11

Description	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£	£	£
Council tax – Band D	0.00	0.03	0.00

3. Treasury Management Budget

Table 12

Description	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£m	**£m**	**£m**	**£m**	**£m**
Interest Payable*	15.14	19.59	19.26	18.93	18.50
Investment Return	(1.20)	(1.01)	(0.99)	(1.42)	(0.78)
Minimum Revenue Provision	12.20	12.21	12.39	13.02	12.38
Investment Fluctuation/Money Market	4.00	-	-	-	-
TOTAL	**30.14**	**30.79**	**30.66**	**30.53**	**30.10**

**Interest Payable figure has taken into consideration the need for additional borrowing.*

3.1 Assumptions behind the 2014/15 Budget:

- average rates achievable on investments will be as follow –

Table 13

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	%	**%**	**%**	**%**	**%**
Investment Return - Rate	0.50	0.50	0.50	1.00	1.25

- the MRP charge is in line with the Council's MRP policy;
- Investment return is based on £350m average investment, and
- 'other' includes broker fees, interest paid to schools, environmental/waste services, and any discounts or premiums in relation to rescheduled loans.

ANNEX 3

Minimum Revenue Provision Policy Statement

1. Policy Statement

1.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance. A variety of options is provided to councils to replace the existing Regulations, so long as there is a prudent provision.

1.2 The statutory duty is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

1.3 To support the statutory duty the Government also issued a guidance, which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start the financial year to which the provision will relate. The Council is therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance on Investments.

1.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

1.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

1.6 The move to International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto the County Council Balance Sheets as long term liabilities. This new accounting treatment impacts on the Capital Financing Requirement with the result that an annual MRP provision is required.

1.7 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators. The implications of these changes are now being reflected in the Council's MRP policy for 2014/15.

1.8 The policy recommended for adoption from 1 April 2014 retains the key elements of the policy previously approved but now incorporates the IFRS changes (re PFI and finance leases) and the consequential updated Government Guidance. The policy for 2014/15 is therefore as follows:-

1.9 For capital expenditure incurred before 1 April 2008 or which in the future will Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Council currently set aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

1.10 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

- Asset Life Method (annuity method) The Council will also be adopting the annuity method, - MRP calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. The policy is being adopted as a result of any PFI's assets coming on the balance sheet and any related MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for finance leases, MRP will also be equivalent to the "capital repayment (principal) element" of the annual rental payable under the lease agreement.

Under both methods, the Council has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

1.11 In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

1.12 This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy. Half-yearly review of the Council's MRP Policy will be undertaken and reported to Members as part of the Half-yearly Treasury Management Strategy review.

Illustrative list of Approved Countries for Investments

The list below shows the countries that would currently meet these criteria:

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- U.K.

Note: There are other three countries with AA+, but the Council will only be using UK because we have the best understanding of the UK market.

ANNEX 5

Capital Assets Services (our Treasury advisors) on the Economic Background outlook for 2014/15

1. The Global Economy

1.1 **The Eurozone**. The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in getting a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

1.2 **USA.** The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down by the end of 2013. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have therefore been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

1.3 **China.** Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

1.4 **Japan.** The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled. However, at long last, Japan has seen strong growth of 4% in the first two quarters of 2013 which portends well for the hopes that Japan can escape from the bog of stagnation and help support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

2. The UK Economy

2.1 **Economic growth.** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 (+0.3%) and 2 (+0.7%) of 2013 to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The August 2013 Bank of England Inflation Report consequently upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong AND sustainable growth. So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

2.2 **Forward guidance.** The Bank of England also issued forward guidance with this Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the latest Inflation Report noted that productivity had sunk to 2005 levels. There has therefore been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment. The forecast in this report for Bank Rate not to start increasing until quarter 3 of 2016 is based on a slow reduction of unemployment, (in line with the Bank of England's forecast), and contrary to the prevalent market view where rates are indicating that Bank Rate is expected to start going up in early 2015.

2.3 **Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is now due to start in October 2013. While there have been concerns that these schemes are creating a bubble in the housing market, the housing market remains weak outside of London and the south-east with a significant increase in house prices either being entirely absent or minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

2.4 **Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.7% in September. It is expected to fall back to reach the 2% target level within the two year horizon.

2.5 **AAA rating.** The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

3. Capita Asset Services forward view

3.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

3.2 Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

3.3 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

3.4 The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.5 Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

3.6 The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth which could result in the ratio of total government debt to GDP to rise to levels that undermine investor confidence in the UK and UK debt.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Annex 6 - New Counterparty list Bank	Country	Fitch Ratings				Moody's Ratings			S & P Ratings		CDS Price	ESCC Duration	Capita Duration Limit	Money Limit
		L Term	S Term	Viab.	Supp.	L Term	S Term	FSR	L Term	S Term		(Months)	(Months)	(£m)
Australia & New Zealand Banking Group	Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	100.2	12	12	60
Commonwealth Bank of Australia	Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	99.2	12	12	60
National Australia Bank	Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	111.0	12	12	60
Westpac Banking Corporation	Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	109.0	12	12	60
Royal Bank of Canada	Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	-	12	12	60
Toronto Dominion	Canada	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	-	12	24	60
Nordea Bank Finland	Finland	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	-	12	12	60
Cooperatieve Centrale Raiffeisen Boerenlleenbank BA	Netherlands	AA-	F1+	-	1	Aa2	P-1	B-	AA-	A-1+	74.7	12	12	60

Bank	Country	Fitch Ratings				Moody's Ratings			S & P Ratings		CDS Price	ESCC Duration	Capita Duration Limit	Money Limit
		L Term	S Term	Viab.	Supp.	L Term	S Term	FSR	L Term	S Term		(Months)	(Months)	(£m)
Development Bank of Singapore	Singapore	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	-	12	24	60
Oversea Chinese Banking Corp	Singapore	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	-	12	24	60
United Overseas Bank	Singapore	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	-	12	24	60
Svenska Handelsbanken	Sweden	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	-	12	12	60
Nordea Bank AB	Sweden	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	-	12	12	60
Lloyds Banking Group:														
Lloyds Bank Plc	UK	A	F1	bbb+	1	A3	-	-	A-	A-2	-	12	12	60
Bank of Scotland	UK	A	F1	-	1	A2	P-1	D+	A	A-1	-	12	12	
RBS/NatWest Group:														
NatWest Bank	UK	A	F1	-	1	A3	P-2	D+	A-	A-2	-	12	12	60
Royal Bank of Scotland	UK	A	F1	Bbb	1	A3	P-2	D+	A-	A-2	-	12	12	
HSBC Bank	UK	AA-	F1+	a-	1	Aa3	P-1	C	AA-	A-1+	-	12	12	60
Barclays Bank	UK	A	F1	a	1	A2	P-1	C-	A	A-1	103.8	3	3	60
Santander UK plc (not Spanish Santander)	UK	A	F1	a	1	A2	P-1	C-	A	A-1	-	3	3	60