ITEM 14

DERBYSHIRE FIRE AUTHORITY

10th MARCH 2011

JOINT REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECUTIVE AND TREASURER

2011/12 – 2012/13 CAPITAL PROGRAMME, PRUDENTIAL CODE REPORT & TREASURY MANAGEMENT STRATEGY

1. **Purpose of the Report**

1.1 To recommend the capital programme for 2011/12 and consider the capital programme for 2012/13. This builds on the report on the capital programme presented to the 24 February 2011 Fire Authority meeting.

1.2 To make recommendations required under the CIPFA Prudential Code for Capital Finance.

1.3 To recommend the Treasury Management Strategy for 2011-12.

2. **Information and Analysis**

CAPITAL PROGRAMME & FINANCING

2.1 The proposed capital programme for 2011/12 and 2012/13 is attached at Appendix 1. The programme is the same as that presented to the Fire Authority on 24 February 2011 and is summarised below.

2.2 The 2011/12 programme for £7.2m covers the completion of Ascot Drive and Buxton Fire Stations, station refurbishments at Kingsway and Long Eaton as well as Disability Discrimination Act work and ICT developments. Anticipated slippage from 2010/11 has been added to original budgets to show a more complete programme.

2.3 A potential new scheme has been added to the programme. This relates to a new tactical simulator unit at Kingsway Station to enable improved fire simulation for training purposes. This will enable the Service to replace the existing building which has exceeded its intended life cycle. A new facility will enable more realistic training and will meet the requirement of the service to provide refresher training to all operational personnel. This will require a further report to the Resources Committee to seek approval for the full business case.

2.4 The Authority has been awarded £1.419m Capital Grant as part of the Local Government Financing announcements on 31 January. This is higher than expected and has previously been agreed to reduce the borrowing requirement in 2011/12. No announcements have been made regarding 2012/13 so at this stage no grant has been assumed for this year.

2.5 The capital receipts shown in Appendix 1 are the sale proceeds for the former Chesterfield and Buxton Fire Station sites. The deposit for the Buxton site is expected to be received before the end of this financial year (2010/11) but it is subject to the purchaser receiving planning permission on the site. There is a clause to repay the deposit if this is not received. This could lead to a delay in the sale beyond 2011/12. This presents a funding risk to the Authority as additional borrowing may be required to fund the capital programme.

2.6 A current planning brief in respect of the former Chesterfield site is awaited from Chesterfield Borough Council (CBC) as none of the bids received in the two tender exercises to date have been acceptable to CBC as both the site owners and the planning authority. Once the planning brief has been prepared they will instruct the site to be marketed again.

THE PRUDENTIAL CODE

2.7 The Prudential Code for Capital finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending. In effect it allows authorities to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to reserve powers to restrict borrowing for national economic reasons.

2.8 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Fire Authority to agree and monitor a number of prudential indicators. The indicators cover:

- Capital expenditure;
- Affordability;
- Prudence;
- Debt levels; and
- Treasury management.

These indicators will also form the basis of in-year monitoring and reporting to the Resources Committee.

2.9 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government.

2.10 The proposals for capital expenditure related borrowing and estimated impact on the Authority's revenue accounts in the next three years are shown at 2.16 to 2.17.

2.11 The capital expenditure recommendations have been determined from an assessment of the Authority's Asset Management Plan. As the impact of capital expenditure, and associated borrowing, is spread over years, it is important to consider the effect of any proposals in both the forthcoming and future financial years. The proposed capital investment programme is shown in detail in Appendix 1.

THE IMPACT OF IFRS

2.12 In addition to the capital programme the Fire Authority leases the majority of vehicles used as an alternative to purchasing them through the capital programme. Following the introduction of IFRS 17 (International Financial Reporting Standards) on leasing, all finance leases are now required to be shown on the balance sheet and the leasing costs treated the same way as borrowing given the longer term nature of the funding.

2.13 The leases that the Fire Service enters into fall into 2 categories – operational leases and finance leases. Operational leases are entered into for assets which DFRS do not use for the majority of their useful life, such as cars or vans which are sold on part way through their useful life. Finance leases are entered into for equipment which remains with the Fire Service for the majority of its useful life (ie 90% of its financial value is consumed by the Fire Service). Most of the fire appliances and specialised equipment used by the Service fall into this category. Since the adoption of IFRS 17 from 1 April 2010 all finance leases are now included in the calculations of prudential indicators. These are therefore included in the figures below for the first time.

2.14 A key risk of the plan will be the level of revenue resources available to the Authority and possible slippage on capital receipts and subsequently on capital expenditure. This capital programme will therefore be subject to regular monitoring to ensure any significant changes are reported to Members.

2.15 The Fire Authority is asked to note the actual and estimated figures and the prudential indicators. The table incorporates schemes already approved, completed or still in progress, the proposed new starts for 2011-12 and estimates for 2012-13 and 2013-14. The costs and financing are spread accordingly over future years.

PRUDENTIAL FRAMEWORK: CAPITAL EXPENDITURE

Prudential indicator 1: Capital expenditure – the projected capital programme for the Authority

	2009-10 Actual £'000	2010-11 Estimate £'000	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000
Capital expenditure	6,019	5,426	7,158	630	0

Prudential indicator 2: Capital Financing Requirement (CFR) – the underlying need to borrow for capital purposes

	2009-10 Actual £'000	2010-11 Estimate £'000	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000
Opening CFR (note 1)	17,213	21,494	24,177	26,034	25,540
Borrowing	4,549	3,431	2,907	630	0
Finance Leasing	1,066	610	679	752	832
Repayments	-1,334	-1,358	-1,729	-1,876	-1,837
Closing CFR	21,494	24,177	26,034	25,540	24,535
Net movement in CFR	4,281	2,683	1,857	-494	-1,005

Note 1 – the 2009/10 opening balance includes a £3.075m adjustment for finance leases.

2.16 The above table indicates proposals for capital expenditure and related borrowing. Within the framework of prudential indicators the Fire Authority is required to assess the affordability of the capital investment plans. The Fire Authority is asked to note the following indicators, which are designed to assist the consideration of affordability and prudence. This is considered in further detail on page 2, section 6 of the Treasury Management strategy.

AFFORDABILITY AND PRUDENCE

Prudential indicator 3: Actual and Estimates of the ratio of financing costs to net revenue stream -This indicator identifies the trend in the cost of capital against the net revenue stream.

	2010-11 Estimate £'000	**2011-12 Estimate £'000**	**2012-13 Estimate £'000**	**2013-14 Estimate £'000**
Borrowing costs	1,348	1,985	2,097	2,057
Finance Lease costs	1,358	1,404	1,457	1,375
Total	2,706	3,389	3,554	3,432
Net Revenue Stream*	41,789	40,841	40,678	39,244
Percentage (including leases)	6.5%	8.3%	8.7%	8.7%
Percentage (excluding leases)	3.2%	4.8%	5.2%	5.2%

* Broad estimate, in 2013/14 and 2014/15 of Government revenue support grant/Council Tax as reported in the report to the Fire Authority 24/2/11.

2.17 The 2011/12 capital programme is affordable and has been built into the revenue budget for the year, however the 2012/13 and 2013/14 capital budgets are still provisional and will depend on future revenue resources. The Fire Authority will have an opportunity to review these when considering future years budgets.

Prudential indicator 4: Estimates of the incremental impact of capital investment decisions on the Council Tax - This indicator illustrates the estimated effect of the capital programme recommended in this budget report.

	Approved Budget 2011-12	Forward Projection 2012-13	Forward Projection 2013-14
Council Tax - Band D			
(i) Existing Commitments only	£1.56	(£0.19)	(£0.62)
(ii) Above plus new starts 2011-12, and 2012-13	£2.27	£0.60	(£0.23)
(iii) Difference between (ii) and (i)	£0.71	£0.79	£0.39

1% on Council Tax is approximately £0.67 per annum

2.18 It is considered that, taking into account the estimates of future levels of revenue available to the Authority, that this level of capital expenditure and associated borrowing is affordable and prudent.

2.19 For 2011/12, additional debt charges of £750,000 will be incurred, arising from the full year effect of the 2010/11 programme and the 2011/12 proposed programme. This increase comprises of £639,000 additional borrowing costs and £111,000 additional finance leasing costs. This sum has been allowed for in the 2011/12 Revenue Budget.

2.20 For 2012/13, the impact will be a further increase of £200,000. In 2013-14, there will be a reduction in costs of £77,000 as borrowing is significantly reduced and repayments start to exceed new borrowing. These costs are expected to be contained within future resources.

Minimum Revenue Provision

2.21 The Local Authorities (Capital Finance and Accounting) (England) Amendment Regulations 2008 require a policy to be agreed regarding the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the Authority has to provide for the repayment of debt. The Authority is recommended to approve the same MRP policy for 2011/12 as was used in 2010/11 which is detailed below:

• For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be to set aside a provision equal to 4% of the previous year's Capital Financing Requirement.

• From 1 April 2008 (including 2009-10) for all unsupported borrowing, excluding finance leases, the MRP policy will use the

Asset Life Method; ie. MRP will be an annual charge based on the estimated life of the assets. The provision will be set aside in the year following the capital expenditure.

• For any finance leases, the MRP will be equal to the element of the actual finance lease repayment that reduces the ongoing balance sheet liability, ie. the principal element of the charge or repayment, in line with CLG guidance.

The Authority continues to have the option to make voluntary additional provision for debt repayment if it wishes.

DEBT LEVELS

Limits to Borrowing Activity

> **Prudential indicator 5: The authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members.

2.22 The figures for the proposed authorised limit for 2011-12 take into account:

(a) The estimated amount of outstanding borrowing on capital expenditure at 31 March 2011 of £22,685,000.

(b) New borrowing for capital schemes of £2,900,000 during 2011-12 less the estimated amount for debt redemption within 2011-12 loan charges of £979,000.

(c) Short term borrowing pending receipt of revenue income. This should be minimal, but in order to cover any unforeseen changes in cashflow patterns it is suggested that a figure of £1m be used.

(d) The Prudential Code allows authorities the flexibility to borrow in anticipation of the following 2 years capital financing requirements. Whilst it is not expected that the Authority would make extensive use of this facility it is recommended that a limit of £2m be set to allow advantage to be taken of favourable market conditions.

2.23 Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £26,210,000 for 2011-12.

Proposed limits for future years have been calculated in a similar manner.

Prudential indicator 6: The operational boundary - This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year.

2.24 In practice it is unlikely that all of the potential borrowing requirements included in the Authorised Limit will materialise at once, therefore the operational boundary requirements will be somewhat lower and £25,610,000 is suggested as a realistic figure.

2.25 The Authority is asked to approve the following authorised and operational limits:

	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000
Authorised limit for external debt	26,210	22,790	20,270
Operational boundary for external debt	25,610	22,190	19,670

These borrowing limits will be subject to monitoring through the Resources Committee and will be revised annually.

TREASURY MANAGEMENT

Prudential Indicators

2.26 The Prudential Code (revised in November 2009) specifies only one prudential indicator in respect of Treasury Management which is that the Authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes as revised in November 2009, details of which are included in Appendix 3.

2.27 In addition the Authority is required to take account of guidance received from Communities and Local Government (CLG) in respect of Investment Strategy.

2.28 The proposed Treasury Management Strategy for 2011-12, which incorporates these requirements, is attached as Appendix 2.

Clauses to be formally adopted

2.29 CIPFA recommends in the revised Treasury Management Code of Practice that Authority's should amend their financial regulations to adopt four important clauses in respect of treasury management activity. These clauses relate to:

- The creation and maintenance of a treasury management policy statement and treasury management practices.

- Minimum reporting requirements to Council on treasury management matters.

- Delegation of responsibility for the implementation, regular monitoring and execution of its treasury management policies and practices.

- Delegation of responsibility for the effective scrutiny of those policies and practices.

These clauses are reproduced as Appendix 3 together with the policy statement recommended by CIPFA.

3. **Background Papers**

Local Government Act 2003, Prudential Code, CIPFA Code of Practice on Treasury Management, Guidance issued by CLG, Consensus Economics January 2009.

4. **Officers' Recommendations**

1. To approve the 2011/12 Capital Programme as detailed in Appendix 1.

2. That the Authority approve the MRP policy for 2011-12 as detailed in para 2.21.

3. That the Fire Authority adopts the Prudential Indicators as described in paragraphs 2.15, 2.16, 2.17, 2.25 and Appendix 2.

4. That the Fire Authority approves the Treasury Management Strategy for 2011-12 as described in Appendix 2, including Prudential Code Indicators set out therein, and taking into

account the guidance issued by the CLG as described in paragraph 9(b).

5. That the Authority adopts CIPFA's Code of Practice on Treasury Management and Cross Sectoral Guidance Notes (revised November 2009), as shown in Appendix 2 and the Treasury Management Policy Statement as specified in the Treasury Management Code of Practice and set out in Appendix 3.

Capital Programme 2011/12 to 2012/13

Capital Programme 2011/12									
	Spend				Funding				
	2010 report	Slippage from 2010/11	New Schemes	Estimated In Year Cost	Revenue	Capital Grant	Captial Receipts	Borrowing	Total
Ascot Drive - New Fire Station	2,300,000	1,004,400		3,304,400			2,024,000	1,280,400	3,304,400
Buxton - New fire Station	1,150,000	809,350		1,959,350		414,750		1,544,600	1,959,350
Chesterfield Fire Station		57,700		57,700				57,700	57,700
Disability Discrimination Act Works		331,000		331,000		331,000			331,000
Generators - business continuity		23,800		23,800				23,800	23,800
Tactical Simulator for BA Complex			227,000	227,000	227,000				227,000
									0
ICT Strategy:									0
Network Infrastructure	100,000			100,000		100,000			100,000
Hardware Infrastructure	150,000			150,000		150,000			150,000
Software Infrastructure	130,000			130,000		130,000			130,000
Business systems	120,000			120,000		120,000			120,000
Snowdrop Upgrade		9,300		9,300		9,300			9,300
Sharepoint development		40,000		40,000		40,000			40,000
Retained alerters		40,000		40,000		40,000			40,000
Unified Communications		30,000		30,000		30,000			30,000
Upgrade SQL Servers		28,100		28,100		28,100			28,100
Transport System		8,350		8,350		8,350			8,350
ITIL		17,500		17,500		17,500			17,500
									0
Kingsway Fire Station Refurbishment		320,000		320,000	320,000				320,000
Long Eaton Station Refurbishment		249,000		249,000	249,000				249,000
Fire Station Chairs		13,000		13,000	13,000				13,000
	3,950,000	2,981,500	227,000	7,158,500	809,000	1,419,000	2,024,000	2,906,500	7,158,500

Capital Programme 2012/13									
	Spend				Funding				
	2010 report	Slippage from 2010/11	New Schemes	Estimated In Year Cost	Revenue	Capital Grant	Captial Receipts	Borrowing	Total
Ascot Drive - New Fire Station	150,000			150,000	0	0	-	150,000	150,000
ICT Strategy	480,000			480,000				480,000	480,000
	630,000	-	-	630,000	-	-	-	630,000	630,000

Timescales		
Station	Commencement Date	Completion Date
Buxton	July 2010	June 2011
Ascot Drive	January 2011	December 2011

Appendix 2

Treasury Management Strategy 2011-12

Prudential Indicator 7: The Treasury Management Strategy

1 The Fire Authority approved the CIPFA Code of Practice on Treasury Management, which included a Treasury Management Policy Statement, originally approved on 10 February 1997 and acceptance of the Code is reaffirmed on an annual basis as a prudential indicator.

2 The policy requires an annual strategy to be reported to Fire Authority outlining the expected treasury activity for the forthcoming year. A report is produced at the year-end to report on actual activity for the year and reports will be received quarterly on performance against the Prudential Indicators.

3 In accordance with the provisions of CIPFA's Code of Practice, the Treasurer has assessed the arrangements for the management and control of treasury management risk and is satisfied with their adequacy and suitability. A key requirement of this report is to explain both the risks, and the management of the risks, associated with treasury management. This report will incorporate guidance received from the Government in respect of the investment of temporary surpluses.

4 This strategy report covers:

- The expected movement in interest rates
- Current net borrowing and comparisons (prudential indicators)
- The Authority's borrowing and debt strategy
- The Authority's investment strategy (including compliance with DCLG guidance)
- Treasury performance indicators

Treasury Management activities will be subject to regular review to reflect changing circumstances and further application and development of existing and emerging guidance.

5 **The expected movement in interest rates**

The Bank of England base rate has been 0.5% since March 2009. The next move in interest rates will depend on economic and financial market conditions and the level of inflation. The position remains uncertain, but some forecasters suggesting an increase to1% in the later part of 2011.

Base rates, or shorter-term interest rates, determine the level of interest receivable on the Authority's temporary investments. A cautious approach is adopted in treasury management activity, to minimise the risk of loss. In line with policy, security and liquidity are treated as the most important considerations, ahead of yield.

Longer-term fixed interest rates are more relevant for borrowing to fund the Capital Programme. These have risen slightly over the year. Long term borrowing rates from the Public Works Loans Board (PWLB) were revised upwards in October 2010 as part of the Government's spending review. Current PWLB rates range from 4.68% for 10 years to 5.34% for 25 years. Forecasts are mixed in respect of the next move in long-term rates. Interest rates in the shorter term loans are very much lower (e.g. 2.17% for year PWLB loans).

6 Net Borrowing and Capital Financing Requirements

	31/3/10 Actual £'000	**31/3/11 Estimate £'000**	**31/3/12 Estimate £'000**	**31/3/13 Estimate £'000**	**31/3/14 Estimate £'000**
Fixed Rate Debt - PWLB	15,441	15,441	22,685	22,239	21,107
Fixed Rate Debt - Market	0	0	0	0	0
Variable Rate Debt - PWLB	0	0	0	0	0
Variable Rate Debt - Market	0	0	0	0	0
Total Debt	**15,441**	**15,010**	**22,685**	**22,239**	**21,107**
Variable Investments	(8,456)	(11,933)	(11,000)	(10,000)	(10,000)
Fixed Rate Investments	0	0	0	0	0
Total Investments	**(8,456)**	**(11,933)**	**(11,000)**	**(10,000)**	**(10,000)**
Net Borrowing	**6,985**	**3,077**	**11,685**	**12,239**	**11,107**
CFR	21,494	24,177	26,034	25,540	24,535

The above figures show that the Authority's net borrowing is less than its forecast CFR in accordance with the requirements of the Prudential Code.

7 The Authority's borrowing and debt strategy

(a) Approved sources of borrowing / raising capital finance

The main source of new loans is likely to be the Public Works Loans Board, which it is estimated could provide all of the Authority's requirement. Historically the PWLB has offered the lowest rates, although the banking sector may be competitive from time to time. However, over the short term it would also be possible to finance a part of the capital programme through the use of internal resources that are temporarily available (cashflow and reserves). These are currently invested in short term deposits through the money market. The use of internal resources in this way would reduce the Authority's interest receipts, but in current market conditions this would be more than offset by savings in interest payments by deferring or repaying external borrowing. For example, at current interest rate levels the use of each £1m of internal resources results in a saving of around £39,000 to the Authority over the short term. However, it would be necessary to replace the funds in the future by raising long term loans, dependent upon market conditions. It would be necessary to take care that such actions would not be detrimental to the Authority in the longer term.

Consequently it is recommended that the approved source of borrowing should be PWLB loans unless cheaper loans can be obtained from the banking sector. Any short term requirements will be taken from the banking sector. No other form of borrowing will be used, except for leasing, should this prove to be advantageous relative to borrowing when all costs are taken into account.

(b) Variable v Fixed Rate loans

Longer term loans to fund the capital programme may be taken at either fixed or variable rates of interest. The Authority is required to approve limits for its fixed and its variable rate debt, and these limits now form treasury indicators within the Treasury Management Code. Control of this is important because of the "risk" or potential benefit, which would accrue to variable rate debt as interest rates change. At present all of the Authority's long-term loan debt is held at fixed rates to take advantage of the historically low rates available.

Provided that long term interest rates remain at relatively low levels, the proposed strategy is to take new long-term borrowing at fixed rates of interest. Should rates increase significantly or discounted variable rates become available, long-term variable rate borrowing should be considered with a view to converting to fixed rates in the future.

Investments consist mainly of the investment of temporarily surplus funds, which are therefore subject to variations in short-term interest rates.

Recommended upper limits on the percentage of borrowing and investments held at fixed and variable rates, as required by the Code, are set out below:

	2011-12 Upper	2012-13 Upper	2013-14 Upper
Borrowing			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Investments			
Limits on fixed interest rates	25%	25%	25%
Limits on variable interest rates	100%	100%	100%

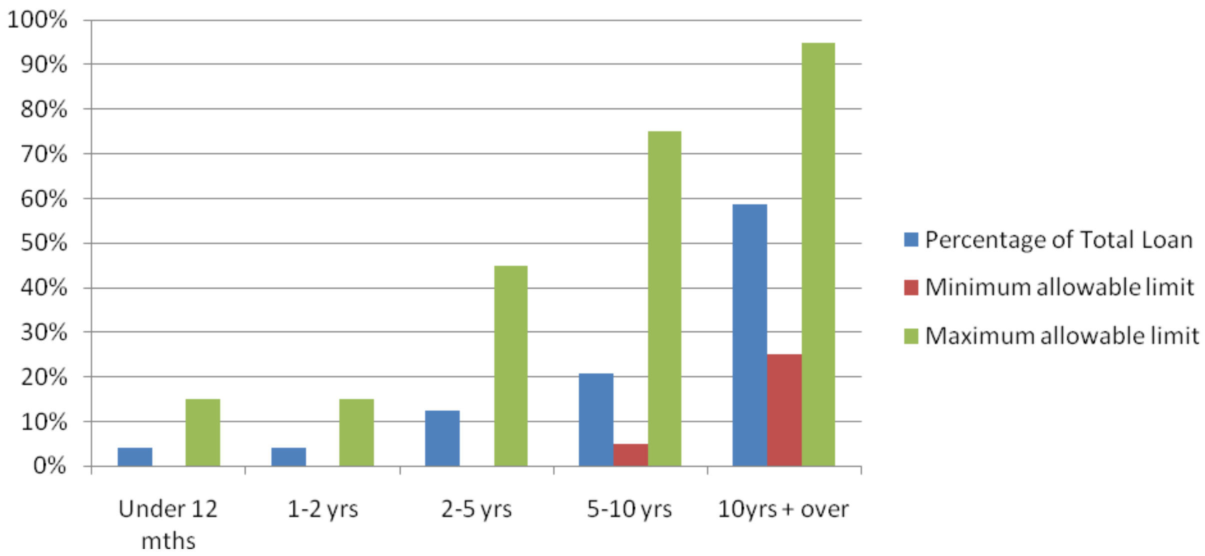
For investments, fixed interest rates are deemed to apply to loans for more than one year.

Limits set at these levels will provide for efficient debt management, within an acceptable degree of risk. For the purposes of the Code, investments are to be deducted from borrowing to produce adjusted limits, but within the above parameters.

(c) Maturity Profile

The maturity profile is the rate at which long-term loans have to be repaid to the PWLB (or other lenders). It would be imprudent to have a large proportion of repayments in any one year, thus a spread of redemptions is desirable. Currently most of the Authority's loan debt is repayable over the next 25 years. The average redemption per year is approximately 4.7% of the total debt, with a maximum redemption in any one year of approximately 5%. The average maturity period for all loans is just under 12 years and this is unlikely to change significantly during 2011-12. The maturity structure, with recommended lower and upper limits is shown in the table and graph overleaf. These are set quite widely to ensure that full advantage can be taken of interest rate movements within an acceptable degree of risk.

Maturity Structure limits - fixed borrowing		2011-12
Under 12 months	Lower – Upper	0% - 15%
12 months to 2 years	Lower – Upper	0% - 15%
2 years to 5 years	Lower – Upper	0% - 45%
5 years to 10 years	Lower – Upper	5% - 75%
10 years and above	Lower – Upper	25% - 95%



8 The Authority's Investment Strategy

Under CIPFA's Treasury Management Code of Practice, the Authority is required to formulate a strategy each year regarding the investment of its revenue funds/capital receipts pending their use. The Treasury Management Code is supplemented by guidance from CLG and Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

The investment strategy is subject to regular review and monitoring to reflect changing circumstances and external guidance.

(a) Strategy under CIPFA's Treasury Management Code of Practice

The income and expenditure flow of the Authority is such that funds are temporarily available for investment. Interest on these loans is credited as income to the Authority and will be worth in the region of £60,000 in the 2011-12 revenue budget.

Surplus funds continue to be invested with Derbyshire County Council who will pay interest at an appropriate money market rate on this cash. The policy meets the Authority's objective of ensuring a good return on its surplus funds while minimising risk.

Any lending to the banking sector would be limited to the list of borrowers used by Derbyshire County Council. The list of approved organisations used by Derbyshire County Council is included in section A.

The total investment in any one organisation at any one time will be limited to:

- No limit with Derbyshire County Council
- Up to £1m with each of the organisations set out in section A

(b) CLG Guidance

Guidance from CLG requires Authorities to give priority to the security and liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Authority's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Authorities to categorise their investments as either "specified" or "non-specified" investments.

(i) Specified Investments

Specified investments are deemed as "safer" investments and must meet certain conditions, ie they must

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either be invested in the government, a local authority, or in a body or investment scheme with a "high" credit rating

Both Derbyshire County Council and the list of organisations set out in section A meet these criteria. The credit ratings of the organisations are checked regularly by Derbyshire County Council.

It is also recommended that the minimum level for short-term specified investments for the coming year be fixed at £1m. This assumes no adverse change in the Authority's level of balances and takes into account variations in cash flow.

(ii) Non Specified Investments

The Authority is required to look at non-specified investments in more detail, which in the Authority's case would be for investments for more than 12 months but not more than 2 years.

Whilst most of the Authority's surpluses are of a temporary nature, some reserves could reasonably be invested for periods in excess of one year.

A limit for lending for more than one year is set out below and the procedures for determining which categories of non-specified investments should be used and the categories deemed to be prudent will be in accordance with the agreed County Council's strategy.

Prudential Indicator	**2011-12**	**2012-13**	**2013-14**
Maximum principal sums invested for more than 364 days	£1m	£1m	£1m

Debt Restructuring

The Authority continuously monitors its debt portfolio and market conditions to evaluate potential savings from debt restructuring and any possibilities that arise during the year will be examined on their merits. However, changes to the way the PWLB calculates premiums and discounts on early repayment of debt have made it very unlikely that the Authority will be undertaking any restructuring in the future.

Performance Indicators

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 results of these indicators will be reported in the Treasury Management Annual Review following the end of the financial year.

It is recommended that the performance indicators used should be as described below:

Long Term Borrowing

Comparison of the Authority's cost of borrowing for the latest financial year with:

- the average interest rate for 25 year PWLB maturity loans for the latest financial year

- the average rate of interest for Fire Authorities for the latest financial year (taken from the CIPFA publication - Capital Expenditure and Borrowing Statistics)

Investments

Comparison of the Authority's return for the year with the average Local Authority 7 day deposit rate for the year, which is in line with the low risk strategy taken by the Authority in the investment of its funds.

A Approved Borrowers

1. Main High Street Banks including 100% subsidiaries with their own credit rating.
2.

Group	Short Term			Long Term		
	Fitch	Moody's	S&P	Fitch	Moody's	S&P
Banco Santander						
Santander UK plc (formerly Abbey)	F1+	P1	A1+	AA-	Aa3	AA
Barclays Bank Group	F1+	P1	A1+	AA-	Aa3	AA-
Co-operative Bank	F2	P1	n/a	A-	A2	n/a
HSBC Group	F1+	P1	A1+	AA	Aa2	AA
Lloyds TSB Group						
Bank of Scotland plc	F1+	P1	A1+	AA-	Aa3	A+
Lloyds TSB Bank	F1+	P1	A1+	AA-	Aa3	A+
Northern Rock	n\a	n\a	A2	n\a	n\a	A-
Royal Bank of Scotland	F1+	P1	A1	AA-	Aa3	A+
Nat West	F1+	P1	A1	AA-	Aa3	A+
National Australia Bank						
Clydesdale Bank t/a Yorkshire Bank	F1+	P1	A1	AA-	A1	A+

2. Main Building Societies.

Group	**Short Term**			**Long Term**		
	Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
Coventry	F1	P2	n/a	A	A3	n/a
Leeds	F1	P1	n/a	A	A2	n/a
Nationwide	F1+	P1	A1	AA-	Aa3	A+
Principality	F2	P2	n/a	BBB+	Baa2	n/a
Skipton	F2	P2	n/a	A-	Baa1	n/a
Yorkshire	F2	P2	A2	A-	Baa1	A-

3. All UK Local Authorities

4 AAA credit rated Money Market Funds

6. Debt Management Office

7. UK Treasury Bills

B. Credit Ratings

Moody's Credit Ratings

Long-Term Bank Deposit Ratings

Aaa

Banks rated Aaa for deposits offer exceptional credit quality and have the smallest degree of risk. While the credit quality of these banks may change, such changes as can be visualised are most unlikely to materially impair the banks' strong positions.

Aa

Banks rated Aa for deposits offer excellent credit quality, but are rated lower than Aaa banks because their susceptibility to long-term risks appears somewhat greater. The margins of protection may not be as great as with Aaa rated banks, or fluctuations of protective elements may be of greater amplitude.

A
Considered upper medium grade and subject to low credit risk.

Short-Term Bank Deposit Ratings

Prime-1

Banks rated Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short-term deposit obligations.

Prime-2

Banks rated Prime-2 for deposits offer strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

Fitch Credit Ratings

F1 – Banks viewed as having a strong capacity to meet their near term obligations. When an insurer rated in this rating category is designated with a + sign, it is viewed as having a very strong capacity to meet near term obligations.

F2 – Banks viewed as having a good capacity to meet their near term obligations.

AAA - Highest credit quality
AAA ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA – Very Strong
AA indicates a very strong capacity to meet policy holder and contract obligations. This capacity is not significantly vulnerable to foreseeable events.

A – Strong
A indicates a strong capacity to meet policy holder and contract obligations. This capacity may, nonetheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Standard and Poor (S &P) Credit Ratings

AA – Very strong capacity to meet financial commitments.

A – Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances.

Appendix 3

Clauses to be formally adopted

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:

1. This Authority will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Treasury Management Code of Practice, subject only to amendment where necessary to reflect the particular circumstances of this Authority. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This Authority will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. This Authority maintains responsibility for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This Authority nominates the Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Practices (TMPs)

CIPFA recommends that an organisation's treasury management practices (TMPs) include those of the following that are relevant to its treasury management powers and the scope of its treasury management activities.

TMP1 Risk management
TMP2 Performance measurement
TMP3 Decision-making and analysis
TMP4 Approved instruments, methods and techniques
TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6 Reporting requirements and management information arrangements
TMP7 Budgeting, accounting and audit arrangements
TMP8 Cash and cash flow management
TMP9 Money laundering
TMP10 Training and qualifications
TMP11 Use of external service providers
TMP12 Corporate governance

Note

TMPs are the detailed procedures which are held by the Treasurer and are subject to regular review.

The Treasury Management Policy Statement

CIPFA recommends that the Authority's treasury management policy statement adopts the following forms of words to define the policies and objectives of its treasury management activities:

1. This organisation defines its treasury management activities 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.

2. This organisation 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.