

Appendix A

Prudential Indicators 2015/16, 2016/17 and 2017/18

i. Gross Debt and the Capital Financing Requirement

- i.i. This is a key indicator of prudence. In order to ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that the gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
- i.ii. The Chief Finance Officer reports that the Council's level of gross debt exceeded the CFR in 2013/14 and maintains a likelihood of doing so over the medium term. The reasons for this are set out in paragraphs 8.15 to 8.18 of the Treasury Management Strategy. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Debt	31.03.15 Revised £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
External Borrowing	tbd	tbd	tbd	tbd
Long Term Liabilities	tbd	tbd	tbd	tbd
Total Debt	tbd	tbd	tbd	tbd

ii. Estimates of Capital Expenditure

- ii.i. The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2015/16 and the following two financial years. The Council must also approve the actual expenditure for 2013/14 and revised expenditure for 2014/15.

	2013/14 Actual £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Expenditure	67.201	tbd	tbd	tbd	tbd

	Actual 2013/14 £m	Estimates			
		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
SCE(R) Supported Borrowing	0.000	} tbd	} tbd	} tbd	} tbd
Prudential Borrowing	1.221				
Grants and Contributions	58.771				
Capital Receipts	0.000				
Revenue	7.209				
Reserves	0.000				
	67.201				

ii.ii. The indicators have been based on the February 2015 capital programme which will be considered for approval by Council on 17 February 2015 with the Service & Resource Planning Report.

ii.iii. The capital expenditure figures for beyond 2015/16 will be able to be revised in twelve months' time.

iii. The Ratio of Financing Costs to the Net Revenue Stream

iii.i. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Year	Actual/ Estimate	Financing Cost £m	Net Revenue Stream £m	Ratio %
2013/14	Actual	tbd	tbd	tbd
2014/15	Estimate	tbd	tbd	tbd
2015/16	Estimate	tbd	tbd	tbd
2016/17	Estimate	tbd	tbd	tbd
2017/18	Estimate	tbd	tbd	tbd

iii.ii. Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision.

iv. The Capital Financing Requirement

iv.i. Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2014 that are recommended for approval are:

Year	Actual/Estimate	£m
2013/14	Actual	422.895
2014/15	Estimate	tbd
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

- iv.ii The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

v. The Incremental Impact of Capital Investment Decisions

- v.i. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.
- v.ii. The estimate of the incremental impact of capital investment decisions proposed in the Capital Programme, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

vi. Authorised Limit and Operational Boundary for External Debt

- vi.i. The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.
- vi.ii. The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all

external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

- vi.iii. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).
- vi.iv. The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- vi.v. The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2014/15 probable outturn	2015/16 estimate	2016/17 estimate	2017/18 estimate
	£m	£m	£m	£m
Operational Boundary for external debt -				
Borrowing	434.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	474.0	tbd	tbd	tbd
Authorised Limit for external debt -				
Borrowing	444.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	484.0	tbd	tbd	tbd

vii. Actual External Debt

- vii.i This indicator enables the comparison of Actual External Debt at year end to the Operational Boundary and Authorised Limit.

Total External Debt as at 31.03.14	£m
External Borrowing	401.383
Financing Liability	26.500
Total	427.883

viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice

- viii.i This indicator demonstrates that the Council has adopted the principles of best practice.
- viii.ii The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Adoption of the CIPFA Code of Practice in Treasury Management
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The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.

ix. Gross and net debt

- ix.i This indicator is intended to identify where an authority may be borrowing in advance of need.

Upper Limit of net debt:

	2014/15	2015/16	2016/17	2017/18
Net Debt / Gross Debt	70%	70%	70%	70%

x. Upper and lower limits to maturity structure of fixed rate borrowing

- x.i This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- x.ii It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.
- x.iii LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2015/16	Lower Limit	Upper Limit
	%	%
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

xi. Upper limits on fixed and variable rate interest exposures

- xi.i These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

Upper limit for fixed interest rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%

- xi.ii The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Upper limit for variable rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re variable rate borrowing / investments	25%	25%	25%	25%

xii. Upper limit to total of principal sums invested longer than 364 days

- xii.i The purpose of this limit is to contain exposure to the risk of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.
- xii.ii** It is proposed that the limit remain at £150m in 2015/16 to reflect the size of the cash portfolio and to continue to offer flexibility in the investment strategy. The average in-house cash balance for 2013/14 was just under £350m.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Upper limit on principal sums invested longer than 364 days	150	150	150	150

Minimum Revenue Provision Policy Statement for 2015/16**Introduction**

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.
2. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. Legislation (Statutory Instrument 2008 no. 414 s4) which came into force on 31 March 2008, gives local authorities more freedom to determine what a prudent level of MRP is.
3. The new legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.
4. The implementation of the International Financial Reporting Standards (IFRS) requirements brought some service concession arrangements on balance sheet and resulted in some leases being reclassified as finance leases instead of operating leases. Part of the service charge or rent payable is taken to reduce the balance sheet liability rather than being charged to revenue accounts. To ensure that this does not result in a one-off increase in the capital financing requirement and in revenue account balances, an amount equal to the amount that has been taken to the balance sheet is included in the annual MRP charge.

Options for Prudent Provision

5. Guidance on the legislation sets out a number of options for making 'prudent provision'. Options 1 and 2 relate to Government supported borrowing. Options 3 and 4 relate to new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed. Authorities are able to use any of the four options for MRP. The options are explained below.

Option 1 - Regulatory Method

6. This is the current method, and for debt supported by Revenue Support Grant (RSG), authorities can choose to continue to use the formula. This is calculated as 4% of the council's general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

Option 2 – Capital Financing Requirement (CFR) Method

7. Option 2 differs from Option 1 only in that the smoothing factors are removed. This is a simpler calculation; however for most authorities including Oxfordshire, it would result in a higher level of provision than Option 1.

Option 3 – Asset Life Method

8. For new borrowing under the Prudential system, Option 3 is to make provision in equal instalments over the estimated life of the asset for which the borrowing is undertaken or the alternative is the annuity method which has the advantage of linking MRP the flow of benefits from an asset where the benefits are expected to increase in later years. As with the existing scheme of MRP, provision for the debt will normally commence in the financial year following the one in which the expenditure is incurred. There is however one exception to this rule under Option 3. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. The MRP 'holiday' would perhaps be two or three years in the case of major projects and could make them more affordable.

Option 4 – Depreciation Method

9. For new borrowing under the Prudential system, Option 4 is to make MRP in accordance with the standard rules for depreciation accounting.

MRP Methodology Statement

10. The policy already in place in the Council is reflected in Options 1 and 3; consequently the statement requiring approval by Council is a confirmation of existing practice and continuation of the policy approved by Council in June 2008. The Council is recommended therefore to approve the following statement:
11. For capital expenditure incurred before 1 April 2008 or which in the future will relate to Supported Capital Expenditure, the MRP policy will be based on existing regulations (Option 1 – Regulatory Method).
12. From 1 April 2008, for all unsupported borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method or Annuity Method).
13. In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability, including the retrospective element in the first year (Option 3 in modified form).
14. The major proportion of the MRP for 2015/16 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance

with Option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2015 will be subject to MRP under Option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Specified Investments

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term BBB-, Minimum Sovereign Rating AA+	In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A	In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds with a Constant Net Asset Value	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes ¹	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	AAA	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Counterparty Rating: Fitch short-term F1, Long-term A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	A-	In-house and Fund Managers

¹ I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix D

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year) ²	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers

² Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house and Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers
Money Market Funds and Collective Investment Schemes ³ but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Determined by TMST	In-house and Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Covered Bonds	A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Registered Providers	A-	In-house	50% In-house	3 years

The maximum limits for in-house investments apply at the time of arrangement.

³ Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.



TREASURY MANAGEMENT POLICY STATEMENT

1. Oxfordshire County Council defines its treasury management activities as:
“The management of the organisation’s 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. Oxfordshire County 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. Oxfordshire County Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.
4. The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
5. The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.
6. The manner in which Oxfordshire County Council will seek to achieve these objectives and the arrangements for managing and controlling treasury management activities is prescribed in the treasury management practices which support this policy statement.
7. Responsibility for the implementation and monitoring of the Council’s treasury management policies and practices are vested in the Council. The officer responsible for the execution and administration of treasury management decisions is the Chief Finance Officer, who will act in accordance with this Policy Statement, Treasury Management Practices and CIPFA’s Standard of Professional Practice on Treasury Management.

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8. The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
9. Council will receive reports on 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.