

# **AUDIT, STANDARDS & GOVERNANCE COMMITTEE**

24<sup>th</sup> March 2016

## **TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2016-17 TO 2018-19**

Relevant Portfolio Holder	Councillor Geoff Denaro
Portfolio Holder Consulted	
Relevant Head of Service	Jayne Pickering
Wards Affected	All
Ward Councillor Consulted	None specific
Non-Key Decision	

### **1. SUMMARY OF PROPOSALS**

- 1.1 Members are asked to approve the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003.

### **2. RECOMMENDATIONS**

- 2.1 The Committee is asked to **RECOMMEND** to Full Council:
- 2.1.1 the Strategy and Prudential Indicators shown at Appendix 1.
  - 2.1.2 the Authorised Limit for borrowing at £15 million, should borrowing be required.
  - 2.1.3 the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £2.5 million, subject to market conditions.
  - 2.1.4 the updated Treasury Management Policy shown at Appendix 2.

### **3. KEY ISSUES**

#### **Financial Implications**

- 3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each

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financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

3.2 CIPFA has defined Treasury Management as:

*“the management of the organisation’s investments, 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.”*

3.3 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. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations 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).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

3.4 In addition, the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.

3.5 The revised CLG guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.7 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

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**Legal Implications**

- 3.8 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

**Service/Operational Issues**

- 3.9 None as a direct result of this report.

**Customer/ Equalities and Diversity**

- 3.10 None as a direct result of this report.

**4. RISK MANAGEMENT**

- 4.1 Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

**5. APPENDICES**

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2016/17

Appendix 2 – Treasury Management Policy Statement

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**Appendix 1**

**Treasury Management Strategy Statement  
And  
Investment Strategy  
2016/17**

**1. Introduction**

- 1.1 On 17<sup>th</sup> March 2010, the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year. A copy of the Council's Treasury Management Policy Statement is in Appendix 2.
- 1.2 The purpose of this TMSS is, therefore, to approve:
- Treasury Management Strategy for 2016/17
  - Annual Investment Strategy for 2016/17
  - Prudential Indicators for 2016/17, 2017/18 and 2018/19
  - MRP Statement.
- 1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4 The Council has surplus operational cash balances and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 1.5 All treasury activity must comply with relevant statute, guidance and accounting standards.

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## **2. Background - Local Context**

The Council currently has £8m in short-term investments. Details of investments are shown in further detail at **Appendix B**.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding minimum working capital of £2m.

The Council is currently debt free. However as existing capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget, there is a continued diminution of these resources. It is anticipated that the Council would need to borrow to fund capital expenditure (leisure centre, the Council's share of Parkside). The forecast borrowing requirement is shown in the balance sheet analysis in Table 1 below.

**2.1 Table 1: Balance Sheet Summary and Forecast**

	<b>31.3.2015 Actual £m</b>	<b>31.3.16 Estimate £m</b>	<b>31.3.17 Estimate £'000</b>	<b>31.3.18 Estimate £'000</b>	<b>31.3.19 Estimate £'000</b>
General Fund CFR	3.48	12.98	17.05	18.07	15.43
<b>Total Capital Financing Requirement</b>	<b>3.48</b>	<b>12.98</b>	<b>17.05</b>	<b>18.07</b>	<b>15.43</b>
Less existing external borrowing**	0	0	-1.81	-8.25	-9.66
<b>Internal borrowing</b>					
Less: Usable reserves	-7.31	-6.99	-6.28	-5.97	-5.97
Less: Working capital	-2.50	-4.18	-2.52	-2.44	-3.48
Investments (or new borrowings)	6.33	-1.81	-6.44	-1.41	3.68

\*\* Note: anticipated borrowing is shown in the last row of the table.

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CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

### **3. Interest Rate Forecast**

- 3.1 The economic and interest rate forecast provided by the Council's treasury management advisor is attached. Arlingclose projects the first 0.25% increase in bank base rate in third quarter of 2016 rising by 0.5% a year thereafter, finally settling between 2 and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

### **4. Borrowing Strategy**

- 4.1 The Council has always been debt free and has not entered into any long-term borrowing arrangements due to the level of significant capital receipts. However, the Medium Term Financial Plan estimates that the ongoing utilisation of existing capital receipts will result in them having reduced to a level that will necessitate having to borrow to fund part of the current capital programme and future capital expenditure.
- 4.2 The balance sheet forecast in table 1 shows that the Council is likely to have a likely borrowing requirement of £10m over the next three financial years. The Council may therefore borrow in 2015/16 to pre-fund future years' requirements, providing this does not exceed the Authorised Limit for borrowing of £15 million.

**Objectives:** The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective. The following issues will be considered prior to undertaking any external borrowing:

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- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source and flexibility.

The Public Works Loan Board (PWLB) and its successor body will most likely be the lender of choice given the relative straightforwardness and flexibility of such borrowing, but the Council will also investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates but without compromising flexibility.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below in Table 2)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Worcestershire County Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities, for example operating and finance leases, hire purchase.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy will address the key issue of **affordability** without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council will be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

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The Council's treasury advisor, Arlingclose Ltd, will assist the Council with this 'cost of carry' and breakeven analysis and will also advise on the timing of any long-term borrowing.

Short-term and variable rate loans are subject to the limit to the net exposure to variable interest rates in the treasury management indicators in section 10 below.

### **5. Investment Objectives Strategy**

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

**Strategy:** The Council's surplus cash is currently invested in call accounts or term deposits with banks and building societies which, by their nature, are unsecured. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes, where practicable, during 2016/17.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and the European Union. Australia and Switzerland are well advanced with their own plans. Meanwhile, changes which took place to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with the Council making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

The Council will also consider investment of surplus monies in pooled Money Market Funds which provide much greater diversification of credit risk as well as high liquidity (same-day access to the investment).



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Over the past 24 months, invested funds have ranged between £5 million and £16.5 million; but as capital receipts and reserves continue to be utilised the core investments balances (i.e. not including day-to-day operational surpluses) are expected to be much lower over the forthcoming years.

The Council may invest its surplus funds with any of the counterparties defined in Table 2 below, subject to the time and cash limits (per counterparty) shown below.

**Table 2: Approved Investment Counterparties**

<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government</b>	<b>Corporates</b>
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£2.5m 5 years	£3m 20 years	£3m 50 years	£2m 5 years
AA+	£2.5m 5 years	£3m 10 years	£3m 25 years	£2m 5 years
AA	£2.5m 4 years	£3m 5 years	£3m 15 years	£2m 5 years
AA-	£2.5m 3 years	£3m 4 years	£3m 10 years	£2m 3 years
A+	£2.5m 2 years	£3m 3 years	£2m 5 years	£2m 2 years
A	£2.5m 13 months	£3m 2 years	£2m 5 years	£2m 2 years
A-	£2.5m 6 months	£3m 13 months	£2m 5 years	£2m 2 years
BBB+	£1.5m 100 days	£2m 6 months	£1m 2 years	£1m 1 year
BBB	£1.5m next day only	£1m 3 months	n/a	n/a
None	£1.5m 6 months	n/a	£3m 25 years	£500k 1 year
Pooled Funds	£2.5m per fund			

Investments in the categories outlined above are:

**Banks Unsecured:** call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These

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investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

**Banks Secured:** covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are exempt from bail-in and are secured on the financial institution's assets, which limits the potential losses in the unlikely event of insolvency.

**Government:** Investments with local authorities or guaranteed by national governments, investments with multilateral development banks. These are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

### **Risk Assessment and Credit Ratings:**

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used (for example the rating assigned to a secured investment), otherwise the counterparty credit rating is used.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If necessary, surplus monies will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:

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- the UK Government,
- a UK local authority, parish council or community council, or
- a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For Money Market Funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. Such investments will be limited to those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The Council will limit non-specified investments to £2.5 million in total.

**Council’s Banker** – The Council’s current accounts are held with HSBC Bank plc. The lowest long-term credit rating (as at 05/02/2016) for HSBC Bank plc is ‘AA-’ (reference Table 2). Should the bank’s credit rating be downgraded to BBB or BBB-, the Council may continue to deposit surplus cash with HSBC Bank plc providing that investment can be withdrawn on the next working day.

Table 3: Portfolio Investment Limits

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£3m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker’s nominee account	£5m per broker
Foreign countries	£5m per country
Unsecured investments with Building Societies	£3m in total
Money Market Funds	£7.5m in total

### **6. Policy on the use of Financial Derivatives**

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Local authorities have previously made use of financial derivatives embedded into loans and investments to reduce interest rate risk and to increase income or reduce costs. Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (such as swaps, forwards, futures and options). These will only be used where they can be clearly demonstrated to reduce the overall level of risk exposed to the Council.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria and their value will count against the counterparty credit limit.

## **7. Treasury Management Indicators**

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

As the Council does not have long-term debt the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed rate or variable rate basis. Whether new loans are borrowed at fixed or variable rates will ultimately depend on the rates available at the time of borrowing, expectations of future interest rate movements and the management of the associated risks.

Fixed rate investments and borrowings are described as those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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**Maturity Structure of Fixed Rate Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

Note: the Council does not have fixed rate long-term borrowing; the limits above have been set to provide flexibility to borrow in the most appropriate maturity band(s) when such borrowing is undertaken.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Limit on principal invested beyond year end	£2m	£1.5m	£1m

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments will be assigned a score based on their perceived risk.

	<b>Target</b>
Portfolio average credit score	6, which is equivalent to a credit rating of 'A'

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

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	<b>Target</b>
Total cash available within 3 months	£3m

**8. Annual Minimum Revenue Provision Statement 2016/17 (MRP)**

- 8.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.
- 8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 8.3 The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.
- 8.4 The Council's Capital Financing Requirement is positive and relates to unsupported capital expenditure. MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal annuity with an annual interest rate of 4% starting in the year after the asset becomes operational. The annuity method recognises the time value of money, resulting in less charge in early years, rising as time goes on.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

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- 8.5 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.
- 8.6 Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Council's estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2016, the budget for MRP has been set as follows:

	<b>31.03.2016 Estimated CFR £'000</b>	<b>17/18 Estimated MRP £'000</b>
Supported capital expenditure before 01.04.2008	0	0
Unsupported capital expenditure from 01.04.2008	12,980	394

### **9. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

- 9.1 The Executive Director of Finance and Resources will report to Full Council on treasury management activity / performance and Performance Indicators as follows:
- Quarterly against the Strategy approved for the year.
  - The Council will produce an outturn report on its treasury activity no later than 30<sup>th</sup> September after the financial year end.
  - Full Council will be responsible for the scrutiny of treasury management activity and practices.

### **10. Other Items**

- 10.1 CIPFA's Code of Practice requires the Executive Director of Finance and Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully



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their roles and responsibilities. Responsibility for scrutiny of the Treasury Management function will rest with the Council. The Executive Director of Finance and Resources will ensure that adequate training is provided for all relevant Members during the financial year.

- 10.2 The Council has appointed Arlingclose Limited as treasury management advisers; receiving specific advice on investment, debt and capital finance issues.

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## **Prudential Indicators 2016/17 – 2018/19**

### **1 Background:**

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. The objectives of the Prudential Code are to ensure that the capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

**Estimates of Capital Expenditure:** The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the Budget report.

<b>Capital Expenditure and Financing</b>	<b>2015/16 Revised £000s</b>	<b>2016/17 Estimate £000s</b>	<b>2017/18 Estimate £000s</b>	<b>2018/19 Estimate £000s</b>
General Fund	11,935	6,193	1,373	1,261
<b>Total Expenditure</b>	<b>11,935</b>	<b>6,193</b>	<b>1,373</b>	<b>1,261</b>
<b>Financing and Funding</b>				
Capital Receipts	(8,312)	(4,100)	(550)	0
Government Grants	(387)	(323)	(323)	(323)
Reserves	(694)	(250)	(250)	(738)
Section 106	(584)	(200)	(200)	(200)
Revenue	(148)	0	0	0
<b>Total Financing</b>				
Unsupported Borrowing	(1,810)	(1,320)	(50)	0
<b>Total Financing and Funding</b>	<b>(11,935)</b>	<b>(6,193)</b>	<b>(1,373)</b>	<b>(1,261)</b>

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### **2. Capital Financing Requirement:**

2.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

<b>Capital Financing Requirement</b>	<b>31.03.16 Estimate £'000</b>	<b>31.03.17 Estimate £'000</b>	<b>31.03.18 Estimate £'000</b>	<b>31.03.19 Estimate £'000</b>
General Fund	12,980	17,050	18,070	15,430
<b>Total CFR</b>	<b>12,980</b>	<b>17,050</b>	<b>18,070</b>	<b>15,430</b>

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

<b>Debt</b>	<b>31.03.16 Estimate £000s</b>	<b>31.03.17 Estimate £000s</b>	<b>31.03.18 Estimate £000s</b>	<b>31.03.19 Estimate £000s</b>
Borrowing	1,810	8,250	9,660	9,660
Finance leases	0	0	0	0
<b>Total Debt</b>	<b>1,810</b>	<b>8,250</b>	<b>9,660</b>	<b>9,660</b>

Total debt is expected to remain below the CFR during the forecast period.

### **3. Actual External Debt:**

3.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

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<b>Actual External Debt as at 31/03/2015</b>	<b>£'000</b>
Borrowing	nil
Other Long-term Liabilities	-
<b>Total</b>	<b>nil</b>

## **4. Authorised Limit and Operational Boundary for External Debt**

4.1 The Council 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 Council and not just those arising from capital spending reflected in the CFR.

4.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing 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 Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

4.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

4.4 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).

<b>Authorised Limit for External Debt</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>
Borrowing	15,000	15,000	15,000	15,000
Other Long-term Liabilities	0	0	0	0
<b>Total</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>

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4.5 The Operational Boundary links directly to the Council'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.

4.6 The Executive Director of Finance and Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Full Council.

<b>Operational Boundary for External Debt</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>
Borrowing	14,000	14,000	14,000	14,000
Other Long-term Liabilities	0	0	0	0
<b>Total</b>	<b>14,000</b>	<b>14,000</b>	<b>14,000</b>	<b>14,000</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2015/16 Revised %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>
General Fund	0.25	2.91	6.39	6.81

**Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

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<b>Incremental Impact of Capital Investment Decisions</b>	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>
General Fund - increase in annual band D Council Tax	5.00	4.08	4.17

**Adoption of the CIPFA Code of Practice:** The indicator below demonstrates that the Council has adopted the principles of best practice.

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 17 <sup>th</sup> March 2010.

The Council has incorporated the changes from the revised 2011 CIPFA Code of Practice into its treasury policies, procedures and practices.

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## **Appendix 2**

### **TREASURY MANAGEMENT POLICY STATEMENT**

#### **1. INTRODUCTION AND BACKGROUND**

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council 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 Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 The Council (i.e. full Council) 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.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Full Council and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

#### **2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES**

- 2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks

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associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 2.2 This 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, and any financial instruments entered into to manage these risks.
- 2.3 This Council 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 performance measurement techniques, within the context of effective risk management.”
- 2.4 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.
- 2.5 The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council’s investments followed by the yield earned on investments remain important but are secondary considerations.