REPORT OF THE CABINET

SUBJECT: THE COUNCIL'S BUDGET 2015/16

The purpose of this report is to enable the Council to calculate and set the Council Tax for 2015/16.

The Localism Act 2011 made significant changes to the Local Government Finance Act 1992 ("the Act"), and now requires the billing authority to calculate a Council Tax requirement for the year, not its budget requirement as previously.

The Council has to formally resolve that it calculates certain figures, which broadly are:

- Its gross expenditure, including contingency and levies (but not precepts)
- Its gross income from fees & charges and other sources, specific grants, external finance from the Government, and any surplus/deficit on the collection fund
- The difference between the two, being the amount which the Council needs for its own services to be paid from the collection fund, defined as the Council Tax requirement
- The basic amount of Council Tax for the net position of all these figures, including precepts, and
- The amount of Council Tax for each other category of dwelling.

The Council is also required to formally approve the management of the Council's treasury management functions, including the Treasury Management Strategy; the proposed revenue budget for both the General Fund and schools' delegated budgets; and the capital programme.

Members are asked to bring their copy of the Cabinet reports including the appendices with them to the meeting, as the recommendations before Council make specific reference to these reports.

The Council should note that the schedule of fees & charges now reflect the amended Budget proposals as approved through the consultation process. These are attached at Annex D.

Also attached to this report are:

- A revised Council Tax statement, originally provided in the Cabinet report marked as Appendix E, amended following the final notification of the local government financial settlement; levies; and further notifications of unringfenced grants.
- Annex A to this report which provides supporting information to the resolutions
- Annex B which are the draft minutes of the Cabinet meeting.

The Treasury Management Strategy and related documents were reported to Cabinet separately but are being submitted to Council as part of this report (Annex C) for approval, as they are directly related to the budget. The Capital Programme was originally provided in the Cabinet report marked as Appendix I. A separate report also covers the proposed Members Allowances scheme for 2015/16.

The Cabinet report asked Members to approve the HRA Revenue Budget for 2015/16 and the Capital Budget for 3 years, 2015/16 to 2017/18, totalling £70.866m.

With greater certainty over HRA resources under self-financing, it is now feasible to plan over a 3 year period. That Capital Budget includes a second phase of New Build of homes for rent or shared ownership, to be held in the HRA; this was approved by Cabinet on 24th September 2014, with subsequent approval of the budget allocation by Council on 26th November 2014. Council is now asked to approve the HRA 3 year capital budget 2015/16 to 2017/18.

There are no further approvals required with regard to this element of the Council's overall Capital Programme.

In the light of the above **Cabinet recommends the Council to adopt the following resolutions as set out below.**

The effect of adopting these resolutions would be to set the Council Tax for a Band D property at £1,514.00

RECOMMENDATIONS

1. That the following as submitted in the report to Cabinet be approved:

   a) The General Fund revenue budget for 2015/16, as set out in the revised Appendix E attached to this report.

   b) The delegated schools' budget for 2015/16, as set out in Appendix E of the report to Cabinet.

   c) The Capital Programme for 2015/16, as set out in Annexes 2, 3 and 4 of Appendix I of the report to Cabinet.

2. That, in accepting recommendation 1, Council is mindful of the advice of the Chief Finance Officer as set out in Appendix H of the report to Cabinet.

3. That it be noted that under delegated powers the Chief Finance Officer has calculated the amount of 83,110 (called T in the Act and Regulations) as its Council Tax base for the year 2015/16 in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) made under Section 31B of the Local Government Finance Act 1992 as amended.

4. That the amount of £101,311,085 be now calculated as the Council Tax requirement for the Council's own purposes for 2015/16.

5. That the following amounts be now calculated by the Council for the year 2015/16 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

(a)	£452,913,781	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	(£351,602,696)	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£101,311,085	being the amount by which the aggregate at 5(a) above exceeds the aggregate at 5(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).
(d)	£1,219.00	being the amount at 5(c) above (Item R), all divided by Item T (1(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

6. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the amounts shown in the table below as the amounts of Council Tax for 2015/16 for each of the categories of dwellings.

Valuation Bands London Borough of Havering	
	£ p
A	812.66
B	948.12
C	1,083.56
D	1,219.00
E	1,489.88
F	1,760.78
G	2,031.66
H	2,438.00

7. That it be noted for the year 2015/16 the major precepting authority (the GLA) has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below as proposed by the Mayor and as due to be considered by the London Assembly at its meeting on 23rd February 2015.

Valuation Bands Greater London Authority	
	£ p
A	196.67
B	229.44
C	262.22
D	295.00
E	360.56
F	426.11
G	491.67
H	590.00

8. That, having calculated the aggregate in each case of the amounts at 6 and 7 above, the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2015/16 for each of the categories of dwellings shown below:

Valuation Bands	£ p
	£ p
A	1,009.33
B	1,177.56
C	1,345.78
D	1,514.00
E	1,850.44
F	2,186.89
G	2,523.33
H	3,028.00

The effect of adopting this resolution would be to set the Council Tax for a Band D property at £1,514.00

9. That Council having considered the principles approved under the Local Government Finance Act 1992 by the Secretary of State concludes that the Council's basic relevant amount of Council Tax for 2015/16 is not excessive.

10. That any Council Tax payer who is liable to pay an amount of Council Tax to the Authority in respect to the year ending on 31st March 2016, who is served with a demand notice under Regulation 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 as amended and who makes payment to the Authority of the full balance of the estimated amount shown on that demand by 1st April 2015, may deduct a sum equivalent to 1.5% of and from the estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount.

11. That Council agrees that the Capital Programme be expanded for schemes during the year which are funded via additional external funding under the authority of the Lead Member for Financial Management and the relevant service area Cabinet Members.

12. That Council approves the Treasury Management Strategy Statement, Prudential Indicators, and the Minimum Revenue Provision Statement for 2015/16.

REPORT DETAIL

As set out in the reports to Cabinet of the 11th February 2015 and the attached Annexes.

APPENDIX E

LONDON BOROUGH OF HAVERING
FINAL COUNCIL TAX STATEMENT – 2015/16 BUDGET

2014/15		Estimate 2015/16	
£	**Havering's Expenditure**	£	
165,596,130	Service Expenditure	176,208,904	
2,000,000	General Contingency	2,000,000	
167,596,130	Havering's Own Expenditure	**178,208,904**	
	Levies		
11,990,000	East London Waste Authority	13,023,000	Final
171,317	Environment Agency (Thames)	176,557	Final
17,679	Environment Agency (Anglia)	18,564	Final
252,415	Lee Valley Regional Park Authority	249,438	Final
313,839	London Pensions Fund Authority (LPFA)	315,425	Final
12,745,250	**Sub Total – Levies**	**13,782,984**	
(14,785,716)	Unringfenced Grant	(26,149,782)	
165,555,664	**Sub Total – Total Expenditure**	**165,842,106**	
	External Finance		
(38,889,716)	Revenue Support Grant	(30,442,521)	
(9,208,018)	Business Rates Top-up	(9,383,968)	
(21,632,207)	National Non Domestic Rate	(21,830,714)	
(69,729,941)	**Sub Total – External Finance**	**(61,657,203)**	
(913,000)	Collection Fund Deficit/(Surplus)	(2,678,000)	
920,395	Business Rates Deficit/(Surplus)	(195,818)	
95,833,118	**Havering's Precept on the Collection Fund**	**101,311,085**	

The Collection Fund

2014/15		Expenditure	Estimate 2015/16	
£	£ p	Precepts	£	£ p
95,833,118	1,195.18	London Borough of Havering	101,311,085	1,219.00
23,974,717	299.00	Greater London Authority (Final)	24,517,450	295.00
21,632,207	269.79	London Borough of Havering Retained Business Rates (Final)	21,830,714	262.67
14,421,472	179.86	Greater London Authority - Retained Business Rates (Final)	14,553,809	175.12
36,053,679	449.64	Central Government - Retained Business Rates (Final)	36,384,523	437.79
272,168	3.39	Cost of NNDR collection	271,109	3.26
192,187,361	2,396.86	**Total Expenditure**	**198,868,690**	2,392.84
		Total Income		
(72,379,526)	(902.68)	National Non-Domestic Rate NNDR receivable	(73,040,155)	(878.84)
119,807,835	**1,494.18**	**COUNCIL TAX per Band D property**	**125,828,535**	**1,514.00**
80,183		Council Tax Base	83,110	

Council Tax percentage change (1.3)%

Valuation as at 1/4/91	Council Taxes Per Property Band £ p		£ p	Change £ p
Under £40,000	996.11	Band A	1,009.33	13.22
£40,001 - £52,000	1,162.15	Band B	1,177.56	15.41
£52,001 - £68,000	1,328.16	Band C	1,345.78	17.62
£68,001 - £88,000	1,494.18	Band D	1,514.00	19.82
£88,001 - £120,000	1,826.21	Band E	1,850.44	24.23
£120,001 - £160,000	2,158.26	Band F	2,186.89	28.63
£160,001 - £320,000	2,490.30	Band G	2,523.33	33.03
Over £320,000	2,988.36	Band H	3,028.00	39.64

ANNEX A

BUDGET AND CORPORATE PLAN AND COUNCIL TAX 2015/16

SUPPLEMENTARY INFORMATION

A. THE GREATER LONDON AUTHORITY AND LEVIES

The Greater London Authority precept proposed by the Mayor was advised as being £295.00 per Band D property (*1.3%* decrease). The London Assembly was due to consider this budget and precept on 23rd February 2015. Confirmation of formal approval to the budget has now been received and the proposed Band D amount has been agreed.

Information on the other levies is as set out in the report to Cabinet or as subsequently advised to Council as part of this report, and is reflected accordingly in the revised Appendix E.

B. FINAL LOCAL GOVERNMENT FINANCIAL SETTLEMENT 2013/14 - 2015/16

	Settlement 2013/14	Settlement 2014/15	Settlement 2015/16
	£000	**£000**	**£000**
Bal B/f	**53,296**	**57,888**	**51,260**
Transferred into formula			
Council Tax Support Funding	13,548		
LACSEG	(4,978)		
Floor	(3,978)		
Scaling		(6,628)	(8,688)
	57,888	**51,260**	**42,572**
Included as part of the Settlement funding Allocation			
Council Tax Freeze Funding	3,778	3,766	4,839
Early Intervention Funding	6,646	6,131	5,584
Homelessness Prevention	400	394	392
Lead Local Flood Authorities Funding	132	130	130
Learning Development and Public Reform	7,822	7,896	7,866
Returned Capitalisation		90	
Local Welfare Provision			543
Transfer Out			
Carbon Commitment			(119)
Total Transfers	**18,778**	**18,407**	**19,236**
Final Grant	**76,665**	**69,667**	**61,808**
Of which relates to Business Rates	30,189	30,777	31,365
Payment via Revenue Support Grant	46,476	38,890	30,443

The business rate figures stated above includes a government expectation of the revenue Havering will generate during the year. Based on the most recent data, it is expected that the council's yield for 2015/16 will be lower than this target by £150k due to a reduction in rateable value from appeals. As a result, Havering will need to fund this shortfall.

C. THE COUNCIL TAX (DEMAND NOTICES) (ENGLAND) REGULATIONS 2011 AND 2012

The Regulations set out the information which the billing authority must supply with the Council Tax Demand Notice, and the National Non-domestic Rate Notice as well as matters required to be contained in those Notices.

The 2011 Regulations require the following information to be provided within the Demand Notice:

Amounts of gross expenditure
The gross expenditure of—
(a) the billing authority,
(b) each relevant precepting authority, and
(c) each relevant levying body,
for the relevant year (ie the year for which the budget is being set) and the preceding year.

Amounts of council tax requirement
The council tax requirement of—
(a) the billing authority, and
(b) each relevant precepting authority,
for the relevant year and the preceding year.

Statements concerning gross expenditure and council tax requirement
The billing authority's reasons for any difference between the amounts stated in respect of the gross expenditure and council tax requirement for the billing authority and each precepting authority for the same year.
The billing authority's opinion of the effect that its gross expenditure has on the level of council tax set for the relevant year.
Each relevant precepting authority's opinion of the effect that its gross expenditure has on the level of its precept issued for the relevant year.

In accordance with these Regulations, these calculations are as follows:

		2014/15 £	2015/16 £
	Amounts of Gross Expenditure		
	Aggregate of the items which are attributable to the services administered by the Authority during the year	448,784,486	452,780,978
excluding	allowances for contingencies	2,000,000	2,000,000
	and contributions to financial reserves	791,538	1,075,372
	Gross Expenditure	**445,992,948**	**449,705,606**
	Amounts of Council Tax Requirement		
	LBH element of the Council Tax Band D for a Property	1,195.18	1,219.00
multiplied by	the Council Tax Base	80,183	83,110
	Council Tax Requirement	**95,833,118**	**101,311,085**
	Statements concerning Gross Expenditure and Council Tax Requirement		
	Gross Expenditure	445,992,948	449,705,606
less	Council Tax Requirement	95,833,118	101,311,085
		350,159,830	**348,394,521**
	Reason for Difference		
	Gross income	283,228,822	286,938,872
	Retained Business Rate	21,632,207	21,830,714
	Business Rate Baseline (Top-Up)	9,208,018	9,383,968
	Revenue Support Grant	38,889,716	30,442,521
	Council Tax (Deficit)/Surplus	913,000	2,678,000
	Business Rates (Deficit)/Surplus	-920,395	195,818
		352,951,368	351,469,893
	Less contingencies and contribution to reserves	-2,791,538	-3,075,372
		350,159,830	**348,394,521**

An additional calculation, setting out an explanatory breakdown of the statutory calculations, was required under the Local Government Finance Act 1992, but has been superceded by the changes brought about by the Localism Act 2011. Details of the calculation are as set out above.

The 2012 Regulations do not impact on the setting of the Council Tax but include a requirement that:

- Demand notices refer to reductions and premiums through introduction of local council tax reduction schemes and local premiums for long term empty dwellings
- A new statement should be included on a demand notice where a reduction under a local scheme or a local premium applies explaining the amount of the reduction or premium, the reasons for it and the possible consequences of failing to comply with duties to notify the billing authority of relevant changes in circumstance
- Demand notices include a statement of the procedure by which a person may request to pay their council tax in 12 monthly instalments and makes certain other consequential amendments

- Demand notices include another statement where the billing authority has published certain information which must be supplied with demand notices on its website to explain that and to give the address where that information can be found.

D. CALCULATION OF CHANGE IN HAVERING'S EXPENDITURE

The following calculation was previously required under Council Tax (Demand Notice) Regulations, known as the budget requirement, and is included here to set out how the Council's expenditure, prior to taking into account Government funding, has changed. These figures reflect the significant changes caused by the new funding system and the impact of the localisation of Council Tax support.

Change in Council's Expenditure

	£m
2014/15 Budget	165.5
2015/16 Budget	165.8
Net Increase	**0.3**
Budget Pressures	4.1
Inflation	2.4
Increase in Levies	1.0
Provisions & Other Issues (including Grant & Funding Changes)	9.9
Sub Total	**17.4**
Efficiencies/Savings	-17.1
Net Total	**0.3**

E. REFERENDUMS RELATING TO COUNCIL TAX RISES

Schedule 5 of the Localism Act 2011 makes provision for Council Tax referendums to be held if an authority increases its basic relevant amount of Council Tax in excess of principles determined by the Secretary of State and approved by the House of Commons.

A Council Tax referendum will be required in 2015/16 if the increase in the basic relevant amount of Council Tax set by an authority exceeds the Council Tax excessiveness principle which applies to that year. The Secretary of State has proposed that, for that year, an authority will be required to seek the approval of their local electorate if it proposes an increase of 2% or more in the level of Council Tax as compared with the 2014/15 level.

As the Council has proposes a Council Tax increase of 1.993%, taking into account of all levies, the level of increase cannot be considered excessive under the provisions of the Act. In these circumstances the Council would not be required to hold a referendum.

ANNEX B

[DRAFT] **MINUTES OF A CABINET MEETING**
Council Chamber - Town Hall
Wednesday, 11 February 2015
(7.30 - 8.40 pm)

LIBERTY

Present:

Councillors Ray Morgon, David Durant, Keith Darvill, David Johnson and Ray Best also attended.

There were no members of the public and no representatives of the press present.

There were no disclosures of pecuniary interest.

Unless otherwise indicated, all decisions were agreed unanimously with no Member voting against.

35 MINUTES

The minutes of the meeting held on 21 January 2015 were agreed as a correct record and were signed by the Chairman.

36 THE COUNCIL'S BUDGET 2015/16

Councillor Roger Ramsey, Cabinet Member for Value, introduced the report

Cabinet was informed that the report before it outlined the context within which the 2015/16 budget was being set and identified the Council's overall policy direction, statutory duties and financial strategy.

The Council's budget needed to reflect the level of funding allocated to it by the Government. Cabinet received reports in May and September 2014 which provided an update on developments at the national level and the consequential impact on local government funding and set out information on the financial position within Havering.

The September report also set out the Council's long term financial strategy to manage the implications of funding reductions and cost pressures over the next four years. It contained specific proposals to bridge the funding gap for the next two years and further proposals were needed to move the Authority towards a balanced four-year budget.

A further report was made to Cabinet on 21st January 2015 which updated Members on the Local Government financial settlement, the progress of the corporate budget and the proposed financial strategy for the coming financial year, the latest in year financial monitor and feedback on the public consultation to the proposals affecting services which were included in the September report. A Special Cabinet was held on 4th February 2015 which considered the responses to the budget consultation and more specifically the impact on three of the savings proposals. These proposals were considered at this special meeting were reflected in the draft strategy and budget proposals.

The current position was that there would be an increase in the Havering element of the Council Tax of 1.993%, which was in line with the assumptions in the approved financial strategy.

Final confirmation of the Greater London Authority (GLA) precept was expected at the meeting of the London Assembly on 23rd February 2015. The Mayor had proposed a small reduction in the current precept, as previously advised to Cabinet, and this had been the subject of a consultation process. There were no known changes to the GLA position as reported during the Cabinet meeting and if this were to change an update would be provided for the Council meeting.

On the assumption that this will be approved by the London Assembly, along with the proposed increase of 1.993% in the Havering share, the band D figure would increase to £1,514.00 an increase of 1.326%.

The report provided comprehensive details of the various components of the budget within its appendices.

Reasons for the Decision

The Council was required to set a budget for 2015/16 and, as part of that process, undertake relevant consultation in respect of the proposals included within the budget.

Alternative Options Considered

There were no alternative options in so far as setting a budget was concerned. However, there were options in respect of the various elements of the budget. These were considered in preparing the budget and covered such things as alternative savings proposals, the totality of budgetary pressures and different levels of Council Tax.

In view of the need to balance the Council's policies, meet demand for statutory services, government initiatives, inspection regimes and Council Tax levels, Cabinet:

1. Considered the advice of the Chief Finance Officer as set out in Appendix H to the report when it recommended the Council budget.

2. Considered the comments in the report on changes to the budget resulting from the consultation exercise, which were reviewed by the Overview and Scrutiny Board on 5th February 2015 and attached as Appendix J to the report, when it recommended the total Council budget.

3. Recommended to Council the following budgets for 2015/16:

- The Council's draft General Fund budget as set out in Appendix E, formulated on the basis of:
  - An ELWA levy based on the anticipated budget and levy increase, and
  - The other assumptions set out in this report.
- The delegated schools' draft budget
- The capital programme as set out in Annexes 2, 3 and 4 of Appendix I of the report,

4. Delegated to the Chief Executive and Group Directors to implement the 2015/16 capital and revenue proposals once approved by Council unless further reports or Cabinet Member authorities were required as detailed in the Council's Constitution.

5. Agreed that the Group Director Communities and Resources in consultation with the Leader be authorised to allocate funding from the Capital contingency included within the draft capital programme.

6. Agreed that to facilitate the usage of unringfenced resources, the Chief Executive and Group Directors will have delegated authority to review any such new funds allocated to Havering, make proposals for their use for approval by the Leader in consultation with the Cabinet Member for Financial Management.

7. Delegated to the Chief Executive and Group Directors the authority to make any necessary changes to service and the associated budgets relating to any subsequent specific grant funding announcements, where delays might otherwise adversely impact on service delivery and/or budgetary control, subject to consultation as appropriate.

8. Approved the schedule of Fees and Charges set out in Appendix L of the report, with any recommended changes in-year being implemented under Cabinet Member delegation.

9. Agreed that if there were any changes to the GLA precept and/or levies, the Chief Executive be authorised to amend the recommended resolutions accordingly and report these to Council on 25th February 2015.

10. Approved the Asset Management Plan as set out in Appendix M of the report.

Cabinet:

11. Recommended to Council, subject to recommendation 3 above, the following:

- The General Fund budget for 2015/16.
- The Council Tax for Band D properties and for other Bands of properties, all as set out in Appendix E of the report, as revised and circulated for the Greater London Authority (GLA) Council Tax.
- The delegated schools' budget for 2015/16, as set out in Appendix F of the report.
- The Capital Programme for 2015/16 as set out in Annexes 2, 3 and 4 of Appendix I of the report.

12. Recommended to Council that it pass a resolution as set out in section 3.33.4 of the report to enable Council Tax discounts to be given at the existing level.

37 HRA BUDGET FOR 2015/2016 AND HRA MAJOR WORKS CAPITAL PROGRAMME 2015/6 – 2017/8

Councillor Damian White, Cabinet Member for Housing, introduced the report

Cabinet was informed that the report set a budget for the Council's Housing Revenue Account (HRA) and HRA Major Works Programme. From 2012 the position of the HRA had changed from previous years because of the introduction of a regime, known as "Self Financing". An update to the 30 year HRA Business Plan was provided.

The HRA remained a ring-fenced account that was used to manage the Council's own housing stock. The proposed budget would enable the Council to manage that stock to a reasonable standard and to complete the Council's Decent Homes Programme. It further set rents, service charges and other charges for Council tenants for the year 2015/6.

The Housing Revenue Account was sound and was able to invest in its stock and develop new homes over the coming three years. Due to a recent change in the Government's rules on rent increases however, the former system of rent restructuring was being abolished in 2015/16 and future rent increases were designed to be limited to no more than the Consumer Price Index (CPI) + 1%.

The Council planned to move to the new system in 2016/17 but had to take the opportunity which remained in the current year, to move its rents to target rents immediately. This would remove the inequality between properties that currently existed.

At present it was possible for identical properties to have different rents, because of the transitional nature of the rent restructuring plan. By moving immediately, in one year, to target rents, this inequality would be eliminated. All rents would be at target rents; additional rental income would be available to invest in the housing stock and in new homes and future rent increases for the next 10 years would be in line with inflation pressures as expressed by the CPI.

In addition, if the Council did not move its rents to target rents, this opportunity would be lost and a regime of CPI + 1% - if applied immediately - would have lost the Council's Business Plan £100m over the life of the Plan. Despite this level of rent increase, Havering's rents remained the lowest in London, during the year 2014/15.

Reasons for the decision:

The Council is required to set the housing rent, service charges and a budget in accordance with the Local Government and Housing Act 1989.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as the rent and service charge increase, budget growth and major works programme proposals.

Cabinet:

1. Agreed the Housing Revenue Account Budget as detailed in Appendix 1of the report.

2. Agreed that the average rent for existing tenants in Council properties owned by the London Borough of Havering be increased by £7.87, from £91.44 to £99.31 (8.6%) with effect from 6 April 2015 in line with the Government's current policy to restructure rents.

3. Agreed that the rent-free weeks for 2015/6 be w/c 24th August 2015 the two weeks commencing 21st and 28th December 2014, and the week commencing 28 March 2016.

4. Agreed that tenants' service charges and heating and hot water charges for 2015/6 were increased or decreased as follows:

Service Charges reviewed and recommended	2014/15 Weekly Charge – 48 weeks	2015/16 Weekly charge – 48 weeks	Increase (decrease)	% increase (decrease)
Caretaking	3.44	3.78	0.34	10%
Internal Block Cleaning	1..31	1.56	0.25	19%
Bulk Refuse Collection	0.50	0.48	(0.02)	(4%)
CCTV - Mobile Service	0.46	0.46	0	0
CCTV - Static Service	1.49	1.40	(0.09)	(6%)
Community Wardens	0.85	0.95	0.10	12%
Door Entry	1.36	0.25	(£1.11)	(81%)
Ground Maintenance	2.83	3.53	0.70	25%
Sheltered Cleaning	3.54	3.58	0.04	1%
TV access	1.49	1.49	0	0
Heating	6.90	6.27	(0.63)	(9%)
Heating and Hot Water	9.72	9.57	(0.15)	(2%)

5. Agreed that the service charge for homeless households accommodated in the Council's hostels were increased by 1.2% to £25.14 a week (average figure).

6. Agreed that charges for high and medium demand garages were increased by 1.2% and that rents for low demand garages were frozen.

7. Noted that the charges for mobile support would be deleted, but that new service charge for the provision of security and support in sheltered housing would be introduced and would be £6.57pw (52 weeks). This would replace the mobile support charges which last year ranged from £5.48pw to £13.70pw, depending upon the level of support.

8. Agreed that the Careline support charge be increased by 1.2%.

Service	Weekly support charge in 2014/15 – 52 weeks	Weekly support charge in 2015/16 – 52 weeks
Careline – sheltered tenants	4.39	4.44
Careline – community users	4.68	4.74

9. Agreed that Telecare support charges be increased by 1.2%.

Service	Weekly support charge in 2014/15 – 52 weeks	Weekly support charge in 2015/16 – 52 weeks
Telecare – base unit plus two sensors	6.81	6.89
Additional Telecare sensor	1.13	1.14

10 Noted that there was a projected in-year surplus of £1.620m, and agreed that £0.5m would be carried forward to fund the replacement of the Housing Management system.

11 Agreed the HRA Major Works Capital Programme, detailed in Appendix 2 of the report and referred this to full Council for final ratification.

38 **TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT FOR 2015/16:**

Councillor Clarence Barrett, Cabinet Member for Financial Management, introduced the report

Cabinet was informed that In February 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code).

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that required the Authority to approve an investment strategy before the start of each financial year.

The report before Members fulfilled the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and CLG guidance.

The Council was also required to receive and approve, as a minimum, three main reports each year which incorporated a variety of policies, estimates and actuals.

They were:

The **Treasury Management Strategy Statement** (This report itself) - The first, and most important report covered:

- The borrowing and investment strategies
- Treasury Management indicators
- Prudential Indicators
- a Minimum Revenue Provision Policy (how residual capital expenditure was charged to revenue over time)

A **Mid Year Treasury Review** – This would provide an update on the prudential and treasury indicators and would include information on the current treasury position.

An **Annual Treasury Report** – This would provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Cabinet approved and recommended to Council:

- The Treasury Management Strategy Statement (TMSS)
- The Prudential Indicators set out in appendix B of the report
- The Annual Minimum Revenue Provision statement for 2015/16 set out in appendix C of the report.

ANNEX C

THE TREASURY MANAGEMENT STRATEGY AND RELATED DOCUMENTS

SUMMARY

In February 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code).

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and CLG guidance

The Council is also required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

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Mid Year Treasury Review – This will provide an update on the prudential and treasury indicators and will include information on the current treasury position.

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

RECOMMENDATIONS

- Cabinet to approve the Treasury Management Strategy Statement (TMSS)
- Cabinet to approve the Prudential Indicators set out in appendix B of this report
- Cabinet to approve the Annual Minimum Revenue Provision statement for 2015/16 set out in appendix C of this report

REPORT DETAIL

Introduction

1.1 CIPFA defines treasury management as:

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

1.2 The Council is required to operate a balanced budget, which broadly means that cash received during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn down may be restructured to meet Council risk or cost objectives.

Local Context

2.1 The Authority currently has £210m of borrowing and £185m of investments. This is set out in further detail at ***Appendix A***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below

Table 1: Balance Sheet Summary and Forecast

	31.3.14 Actual £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m
General Fund CFR	66	62	61	59	58
HRA CFR	172	175	175	175	175
Total CFR	**238**	**237**	**236**	**234**	**233**
Less: Other long-term liabilities *	-1	-1	-1	-1	-1
Borrowing CFR	**237**	**236**	**235**	**233**	**232**
Less: External borrowing **	-210	-210	-210	-210	-210
Internal borrowing	**27**	**26**	**25**	**23**	**22**
Less: Usable reserves	-141	-133	-117	-100	-97
Less: Working capital	-15	-15	-15	-15	-15
Investments	**129**	**122**	**107**	**92**	**90**

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

2.2 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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £30m.

2.3 The Authority has a decreasing CFR due to the Authority's decision to fund its capital programme through the use of receipts and external grants rather than through prudential borrowing.

2.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2015/16.

Borrowing Strategy

3.1 The Authority currently holds £210 million of long term loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 above, shows that the Authority does not expect to need to borrow in 2015/16.

3.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

3.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to 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.

3.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal 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. Arlingclose (the treasury management advisers) will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.5 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Public Works Loan Board (or its successor body)
- UK local authorities
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds

- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

3.6 The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

3.7 The Authority holds a £7m LOBO (Lender's Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The LOBO has this option again during 2015/16, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority may take the option to repay LOBO loans at no cost if it has the opportunity to do so.

3.8 Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

3.9 Debt Rescheduling, The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Investment Strategy

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £128 and £198 million, and similar levels are expected to be maintained in the forthcoming year.

4.2 Both the CIPFA Code and the CLG Guidance require the Authority 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 Authority'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 of receiving unsuitably low investment income.

4.3 The Authority may invest its surplus funds with any counterparty meeting the criteria in table 2 below, subject to the cash and time limits shown. Any new type of investment or any investment with a new counterparty is subject to a strict scrutiny process from Senior Finance and approval from the Director of Communities and Resources prior to any investments being made.

Table 2: Approved Investment Counterparties

Credit Rating	Banks Unsecured*	Banks Secured*	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£10% 5 years	£10% 10 years	£10% 50 years	£5% 20 years	£5% 20 years
AA+	£10% 5 years	£10% 10 years	£10% 25 years	£5% 10 years	£5% 10 years
AA	£10%m 4 years	£10% 4 years	£10% 15 years	£5% 5 years	£5% 10 years
AA-	£10% 3 years	£10% 4 years	£10% 10 years	£5% 4 years	£5% 10 years

A+	£10% 2 years	£10% 3 years	£5% 5 years	£5% 3 years	£5% 5 years
A	£10% 13 months	£10% 2 years	£5% 5 years	£5% 2 years	£5% 5 years
A-	£10% 6 months	£10% 13 months	N/A	£5% 13 months	£5% 5 years
BBB+	£5% 100 days	£5% 6 months	N/A	£2.5% 6 months	£2.5% 2 years
BBB or BBB-	£5% next day only	£5% 100 days	N/A	n/a	n/a
None	£1m 6 months	N/A	N/A	£50,000 5 years	£5% 5 years
Pooled funds	£10% per fund				

This table must be read in conjunction with the notes below

Cash Limits are set as a percentage of the overall balance of the Council's investments as determined at the start of the month or more frequently if required.
*The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Credit Rating: 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, otherwise the counterparty credit rating is used.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. In addition the Authority also monitors credit ratings using Bloomberg.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made,
- Any existing investments that can be recalled or sold at no cost will be
- 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 BBB+ 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.

The Authority 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.

All eligible counterparties and new types of investments will be discussed prior to their use by the Lead Member, Group Director of Communities and Resources and other senior finance officers where the appropriateness and security of the investment will be assessed. Any counterparties or investments that fail to meet to approval of the group will not be used despite meeting the investment strategy criteria.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank 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 secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments 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.

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. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

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. Money Market Funds that offer same-day liquidity and aim for a constant net asset value 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.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

4.4 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:
    - o the UK Government,
    - o a UK local authority, parish council or community council,

    or

    - o a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of BBB+ 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.

4.5 Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. 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. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£75m
Total investments without credit ratings or rated below [BBB+]	£20m
Total investments with institutions domiciled in foreign countries rated below [AA+]	£15m
Total non-specified investments	£110m

4.6 In addition to the limits already set out in Tables 2 and 3, the limits set out in table 4 below are also proposed to further protect the security of the Authorities investments

Table 4: Additional Investment Limits

	Cash limit*
Any single organisation, except the UK Central Government	£10%
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10%
Any group of pooled funds under the same management	£10% per manger
Negotiable instruments held in a broker's nominee account	£10% per broker
Foreign countries	£20% per country
Registered Providers	£10% in total
Building Societies	£20% in total
Loans to small businesses	£10% in total
Loans to unrated corporates	£10% in total
Money Market Funds	£20% in total

*Cash limits are set as a percentage of the overall balance of the Council's investments as determined at the start of the month or more frequently if required. Should investments with a counterparty be above the cash limit as a result of cash limit being reduced due to lower cash balances, then no further investments will be made until the level is below the cash limit again.

4.7 Liquidity Management: The Authority maintains a detailed cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

4.8 Current Account Bank: Following a competitive tender exercise held in 2012, the Authority's current accounts are held with the Royal Bank of Scotland group. Should the credit ratings fall below BBB+, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.

Treasury Management Indicators

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

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by taking the arithmetic average, weighted by the size of each investment.

	Target
Portfolio average credit rating	*A-*

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

	Target
Total cash available by the next working day	£5m
Total cash available within 3 months	£30m

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

	2014/15	**2015/16**	**2016/17**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	25%	25%

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**

Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Due to the unlikelihood of any LOBO's being called they are treated as maturing on the maturity date rather than the potential repayment date.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£75m	£50m	£25m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Policy on Apportioning Interest to the HRA

On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at an appropriate rate which has been adjusted for credit risk.

Investment Training

The needs of the Authority's treasury management staff for training in investment management are assessed on a regular basis as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our investment advisers.

Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

Financial Implications

The budget for investment income in 2015/16 is £1 million, based on an average investment portfolio of £139 million at an interest rate of 0.75%. The budget for debt interest paid in 2015/16 is £7.5 million, based on an average debt portfolio of £210 million at an average interest rate of 3.6%. Of this figure, £170m is HRA debt, with a budget for debt interest paid of £5.8m. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a quarterly basis to the Audit Committee and on a bi annual basis to full Council.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties	Interest income will vary depending on the counterparties used	Lower chance of losses from credit related defaults, but any such losses will be greater

Invest in a wider range of counterparties	Interest will again vary depending on the counterparties used.	Increased risk of losses from credit related defaults, but any such losses will be smaller
Invest in deposits with a longer duration	Interest income will be higher	Increased risk of losses from credit related defaults and a reduction in liquidity
Invest in deposits with a shorter duration	Interest income will be lower	Decreased risk of losses from credit related defaults and an increase in liquidity
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain and there may be additional costs occurred from restructuring

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Council ought to approve a Treasury Management Strategy Statement, the MRP Strategy and the Prudential Indicators.

Other options considered:

There are no good reasons to depart from the provisions of the relevant Codes.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from this report. Treasury management activities are considered as part of the overall budget strategy.
Changes to the TMSS have no direct financial implications but are intended to better manage Investment risk in response to fluctuations in cash flow.

Legal implications and risks:

The Council has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report.

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities implications and risks:

There are no equalities implications within this report

BACKGROUND PAPERS

There are no background papers associated with this report

Appendix A – Existing Investment & Debt Portfolio Position

	31/12/2014 **Actual Portfolio** **£m**	31/12/2014 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	203.2	3.59%
PWLB – Variable Rate	0	-
Local Authorities	0	-
LOBO Loans	7	3.60%
Total External Borrowing	**210.2**	**3.59%**
Investments:		
Short-term investments	169.3	
Long-term investments	16.0	
Total Investments	**185.3**	**0.69%**
Net Debt	**24.9**	

Appendix B - Prudential Indicators 2015/16

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority 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 Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	44.5	53.7	36.2	13.5
HRA	40.8	36.5	22.9	22.2
Total Expenditure	**85.3**	**90.2**	**59.1**	**35.7**
Capital Receipts	14.8	27.6	9.9	6.2
Government Grants	53.2	26.1	26.3	7.3
Reserves	0	8.6	1.1	0
Revenue	17.3	27.9	21.8	22.2
Borrowing	0	0	0	0
Leasing and PFI	0	0	0	0
Total Financing	**85.3**	**90.2**	**59.1**	**35.7**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.15 Revised £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	62.0	60.6	59.3	57.9
HRA	174.6	174.7	174.7	174.7
Total CFR	**236.6**	**235.3**	**234.0**	**232.6**

As set out in the tables above all capital expenditure is being funded through the use of capital receipts, revenue and other external funding rather than through borrowing.

The CFR is therefore forecast to fall by £4m over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

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.

Debt	31.03.15 Revised £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	210.7	210.7	210.7	210.7

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

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	248.4	247.1	245.7	244.3
Other long-term liabilities	2.0	2.0	2.0	2.0
Total Debt	**250.4**	**249.1**	**247.7**	**246.3**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	260.8	259.5	258.0	256.5
Other long-term liabilities	2.0	2.0	2.0	2.0
Total Debt	**262.8**	**261.5**	**260.0**	**258.5**

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.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
General Fund	2.13	2.19	2.13	2.10
HRA	6.06	5.73	5.56	5.48

Incremental Impact of Capital Investment Decisions: 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 the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the new capital programme.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate

	£	£	£
General Fund - increase in annual band D Council Tax	0	0	0
HRA - increase in average weekly rents	£44.60p	£32.94p	£33.86p

Adoption of the CIPFA Treasury Management Code: The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*.

Appendix C – Annual Minimum Revenue Provision Statement 2014/15

Where the Authority 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 provision since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* issued in 2012.

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.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

> For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £2.9m.
>
> For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. 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.
>
> For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
>
> No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2015/16 will not be subject to a MRP charge until 2016/17

Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2015, the budget for MRP has been set as follows:

	31.03.2015 Estimated CFR £m	2015/16 Estimated MRP £
Capital expenditure before 01.04.2008	38.0	1.1
Unsupported capital expenditure after 31.03.2008	13.0	0.3
Finance leases and Private Finance Initiative	0	0
Transferred debt	0	0
Total General Fund	**51.0**	**1.4**