Havering
LONDON BOROUGH

ANNEX C

THE TREASURY MANAGEMENT STRATEGY STATEMENT

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) which requires the Authority 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 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.

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

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

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.

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 Long Term borrowing and £227m 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

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
General Fund CFR	62	60	59	57	56
HRA CFR	175	175	192	209	209
Total CFR	**237**	**235**	**251**	**266**	**265**
Less: Other long-term liabilities *	-1	0	0	0	0
Borrowing CFR	**236**	**235**	**251**	**266**	**265**
Less: External borrowing **	-210	-210	-210	-210	-210
Internal borrowing	**26**	**25**	**41**	**56**	**55**
Less: Usable reserves	-171	-175	-142	-115	-96
Less: Working capital	-14	-14	-14	-14	-14
Investments	**159**	**164**	**115**	**73**	**55**

* 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 GF 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. The HRA CFR however is set to increase up to its maximum borrowing headroom to finance new building works.

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 2016/17 and the following 3 years.

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 externally in 2016/17. The Council's cash holding will reduce over time in order to finance the Council's proposal to fund Regeneration and Development projects from prudential borrowing. Decisions over the need for external borrowing as opposed to increasing the amount of internal borrowing will be continually assessed and will depend on current market conditions. For the purposes of preparing the TM indicators it is assumed that the provision for Regeneration and Development schemes totalling £100m will give rise to a cashflow of £20m per year over five years.

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 2016/17 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
- UK Municipal Bonds Agency plc 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 2016/17, 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 In respect of 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 £159 and £231 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% 20 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% 5 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.

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. 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.

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.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority'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:

- 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 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.

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 Authority 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. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus 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.

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.

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,
  - 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 (except pooled funds) 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
Financial instruments held in a broker's nominee account	£20% per broker
Foreign countries	£10% per country
Registered Providers	£10% in total
Unsecured investments with Building Societies	£20% 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, 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.

4.9 Housing Development Company:

1. Delegate to the Leader of the Council and Cabinet Member for Housing Company Development & One Source Management, supported by a Senior Council Officer other than Group Director of Communities & Resources, to release funds through such loans needed to meet the requirements of the agreed business case.
2. Delegate to the Leader of the Council and Cabinet Member for Housing Company Development & One Source Management to agree to to Heads of Terms of the Shareholder Agreement and authorise the Group Director for Communities & Resources, in conjunction with the Director of Legal and Governance, the authority to negotiate and finalise the Shareholder agreement.

Treasury Management Indicators

5.1 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. Unrated investments are assigned a score based on their perceived risk.

	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

5.2 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 at least 12 months, the whole financial year. Instruments that mature during the financial year are classed as variable rate.

5.3 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.

5.4 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.

6.1 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 and forward starting transactions, 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.

6.2 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.

6.3 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.

6.4 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.

6.5 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.

7. Housing Development Company

7.1. At its meeting of May 2015 Cabinet agreed to:

- Delegate to the Leader of the Council and Cabinet Member for Housing Company Development & One Source Management, supported by a

Senior Council Officer other than Group Director of Communities & Resources, to release funds through such loans needed to meet the requirements of the agreed business case.

- Delegate to the Leader of the Council and Cabinet Member for Housing Company Development & One Source Management to agree to Heads of Terms of the Shareholder Agreement and authorise the Group Director for Communities & Resources, in conjunction with the Director of Legal and Governance, the authority to negotiate and finalise the Shareholder agreement.

7.2. The Council's draft capital programme includes a provision of £100m for Development and Regeneration projects. The equity investment and loans to be made for capital purposes to the company will be met from this provision. This level of planned expenditure and the consequential impact upon the Council's prudential borrowing is reflected in the TMSS.

7.3 Some aspects of the Housing Company's expenditure included within the approved business plan will not meet the statutory definition of capital expenditure (i.e. they will be treated as revenue spending in the company's accounts). Nevertheless, it is intended that these sums will be funded through the Council's Treasury Management arrangements and it is also intended that these sums will count towards the £100m provision referred to in 7.2. above for the purposes of financial control.

7.4. It is anticipated that the Housing Company loan(s) will include a working capital loan facility. The terms of this loan facility will require approval in accordance with the arrangements described in paragraph 7.1 above.

Financial Implications

8.1 The budget for investment income in 2016/17 is £0.96 million. This is based on an average investment portfolio of £160 million at an interest rate of 0.60%. There is also an additional income target of £0.3m as a result of investment in the new housing company established.

8.2 The budget for debt interest paid in 2016/17 is £7.5 million. This is 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.

8.3 If actual levels of investments and borrowing or 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.

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:

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted with the Cabinet Member for Financial Management 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

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

	22/12/2015 **Actual Portfolio** **£m**	22/12/2015 **Average Rate** **%**
Long Term Borrowing:		
PWLB – Fixed Rate	203.2	
PWLB – Variable Rate	0	
Local Authorities	0	
LOBO Loans	7.0	
Total Long Term Borrowing	**210.2**	**3.59%**
Short Term Borrowing		
Local Authorities	10.0	
Other	0.3	
Total Short Term Borrowing	**10.3**	**0.47%**
Investments:		
Short-term investments	217.7	
Long-term investments	10.0	
Total Investments	**227.7**	**0.69%**
Net Investments	**7.2**	

Appendix B - Prudential Indicators 2016/17

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	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	47.6	87.7	63.9	36.9
HRA	19.8	48.3	48.8	30.7
Total Expenditure	**67.4**	**136.0**	**112.7**	**67.6**
Capital Receipts	15.9	27.1	14.5	9.4
Government Grants	32.0	40.9	29.7	7.8
Reserves	0	5.9	6.4	5.4
Revenue	19.5	25.0	25.0	25.0
Borrowing	0	37.1	37.1	20.0
Leasing and PFI	0	0	0	0
Total Financing	**67.4**	**136.0**	**112.7**	**67.6**

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 Actual £m	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	62.0	60.3	78.9	97.4	115.9
HRA	174.6	174.7	191.8	209.0	209.0
Total CFR	**236.6**	**235.0**	**270.7**	**306.4**	**324.9**

The CFR is forecast to rise by £89.9m over the next 3 years as capital expenditure financed by debt outweighs resources set aside for debt repayment. Of the £89.9m, £34.3 is in relation to the HRA and £55.6 is in relation to the GF

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	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	258.5	377.8	397.0	397.0
Other long-term liabilities	2.0	2.0	2.0	2.0
Total Debt	**260.5**	**379.8**	**399.0**	**399.0**

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	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	282.0	404.8	436.7	437.0
Other long-term liabilities	2.0	2.0	2.0	2.0
Total Debt	**284.0**	**406.8**	**438.7**	**439.0**

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	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	1.99	2.09	2.09	2.09
HRA	2.92	2.97	2.97	2.97

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	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	£7.75p	£6.87p	£6.51p
HRA - increase in average weekly rents	£3.46p	£3.46p	£2.05p

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 2016/17

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 and applied on a reducing balance basis.
>
> 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 on a reducing balance basis, 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 2016/17 will not be subject to a MRP charge until 2017/18

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

	31.03.2016 Estimated CFR £m	**2016/17 Estimated MRP £**
Capital expenditure before 01.04.2008	38.0	0.9
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. 1**