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Audit, Governance and Standards

Committee

Thu 28 Jan 2016
7.00 pm

Committee Room 2
Town Hall
Redditch

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Audit, Governance & Standards

Committee

Thursday, 28th January, 2016

7.00 pm

Committee Room 2, Town Hall

Agenda Item 10 — Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19 - updated final report

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28th January 2016

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

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

1. SUMMARY OF PROPOSALS

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

2. RECOMMENDATIONS

The Committee is asked to RECOMMEND that

1) the Strategy and Prudential Indicators at Appendix 1 to the report be approved; and

2) the updated Treasury Management Policy at Appendix 2 to the report be approved.

3. KEY ISSUES

Financial Implications

3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

3.2 CIPFA has defined Treasury Management as:

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

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

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements

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

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

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

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

Legal Implications

3.8 This is a statutory report under the Local Government Act 2003.

Service/Operational Issues

3.9 None as a direct result of this report.

Customer/ Equalities and Diversity

3.10 None as a direct result of this report.

4. RISK MANAGEMENT

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

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

5. APPENDICES

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

Appendix 2 – Treasury Management Policy Statement

AUTHOR OF REPORT

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Appendix 1

Treasury Management Strategy Statement And Investment Strategy 2016/17

1. Introduction

1.1 On 17th March 2010 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. A copy of the Authority's Treasury Management Policy Statement is in Appendix 2.

1.2 The purpose of this TMSS is, therefore, to approve:

- Treasury Management Strategy for 2016/17
- Annual Investment Strategy for 2016/17
- Prudential Indicators for 2016/17, 2017/18 and 2018/19
- MRP Statement.

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

1.4 The Authority has borrowed substantial sums of money, primarily for the HRA subsidy settlement in 2012, and form time to time has surplus operational cash balances and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

1.5 All treasury activity must comply with relevant statute, guidance and accounting standards.

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2. Background - Local Context

The Authority currently has £109m of borrowing including £104m of long-term debt and £6m in short-term investments. Details of debt are shown in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

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 minimum working capital of £2m.

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

	31.3.2015 Actual £m	**31.3.16 Estimate £m**	**31.3.17 Estimate £'000**	**31.3.18 Estimate £'000**	**31.3.19 Estimate £'000**
General Fund CFR	16.00	19.38	22.32	23.12	24.75
HRA CFR	122.16	122.16	122.16	122.16	122.16
Total Capital Financing Requirement	**138.16**	**141.54**	**144.48**	**145.28**	**146.91**
Less external borrowing**	-113.06	-104.00	-110.80	-113.74	-114.54
Internal borrowing					
Less: Usable reserves	-24.11	-24.92	-24.92	-24.92	-24.92
Less: Working capital	-0.54	-5.82	-5.82	-5.82	-5.82
Investments (or new borrowings)	-0.45	-6.80	-2.94	-0.80	-1.63

****** Includes £98.9m borrowing undertaken in March 2012 for the HRA subsidy reform settlement**.**

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.

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3. Interest Rate Forecast

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

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

4. Borrowing Strategy

4.1 The Authority currently has £104m of long-term borrowing; the level of long-term borrowing is unchanged from 31st March 2015.

4.2 The balance sheet forecast in table 1 shows that the Authority is likely to have a borrowing requirement in 2016/17 of £110m. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the Authorised Limit for borrowing of £140 million.

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

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

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 but without compromising flexibility.

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

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

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the 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.

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

The Council's treasury advisor, Arlingclose Ltd, will assist the Authority with this 'cost of carry' and breakeven analysis.

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

4.3 **LOBOs:** The Authority holds a £5m of LOBO (Lender's Option Borrower's Option) loan where Barclays Bank, the lender, has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no

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additional cost. This LOBO has semi-annual options during 2016/17, and although the Authority understands that the lender is unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5m, i.e. no further LOBO loans will be borrowed.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium (i.e. an amount over and above the principal outstanding) or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, only if this is expected to lead to an overall cost saving or a reduction in risk.

The Authority's PWLB loans were borrowed at a one-off preferential rates for HRA self-financing settlement. At current interest rates (15/1/2016), a premium would be incurred on the if the Authority were to prematurely any of the four PWLB loans; the premiums range between 11% and 21% of the outstanding loan principal.

5. Investment Objectives Strategy

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

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and the European Union.

Australia and Switzerland are well advanced with their own plans. Meanwhile, changes which took place to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with the Authority making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

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

Over the past 24 months, invested funds have ranged between nil and £12 million; a similar pattern is expected in the forthcoming year.

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

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Table 2: Approved Investment Counterparties

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

Investments in the categories outlined above are:

Banks Unsecured: call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

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

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

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

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

Risk Assessment and Credit Ratings:

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

Credit ratings are obtained and monitored by the 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. If necessary, surplus monies will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

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

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - 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 A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For Money Market Funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. Such investments will be

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limited to those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The Authority will limit non-specified investments to £2 million in total.

Authority's Banker – The Authority's current accounts are held with Lloyds plc. The lowest long-term credit rating (as at 15/1/2016) for Lloyds Bank is 'A' (reference Table 2). Should the bank's credit rating be downgraded to BBB or BBB-, the Authority may continue to deposit surplus cash with Lloyds Bank plc providing that investment can be withdrawn on the next working day.

Table 3: Portfolio Investment Limits

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

8. Policy on the use of Financial Derivatives

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

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

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9. Policy on Apportioning Interest to the HRA

On 1st April 2012, the existing long-term loans were notionally moved into the HRA pool. In the future, any new long-term loans will be assigned in their entirety to the relevant pool, whether it be General Fund or HRA and interest and costs charged/credited to the respective revenue account. The General Fund uses surplus HRA funds as a means of internal borrowing. Interest is calculated using the Authority's average rate on investments and transferred to the HRA from the General Fund.

10. Treasury Management Indicators

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

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

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

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

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Maturity Structure of 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:

	Lower	Upper
Under 12 months*	0%	15%*
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

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.

*Note: In accordance with CIPFA's guidelines, LOBO option dates are treated as potential repayment dates. The Council's £5m LOBO has 6-monthly option dates and is included within the 'Under 12 months' band above.

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 long-term principal sum invested to final maturities beyond the period end will be:

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

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

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

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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 within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£3m

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

11.1 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 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* (the CLG Guidance) most recently issued in 2012.

11.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

11.3 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.

11.4 MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal annuity with an annual interest rate of 4% starting in the year after the asset becomes operational. This is a change from previous years, where MRP was charged in equal instalments over the useful life. This change has come about in order to recognise the time value of money, resulting in less charge in early years, rising as time goes on.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(This is Option 3 as per the Guidance for England and Wales).*

11.5 No MRP will be charged in respect of assets held within the Housing Revenue Account.

11.6 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

11.7 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 £'000	**17/18 Estimated MRP £'000**
General Fund assets	**19,380**	**1,057**
Assets in the Housing Revenue Account	221,087	Nil
HRA subsidy reform payment	-98,929	Nil
Total Housing Revenue Account	**122,158**	**Nil**
Total	**141,538**	**1,057**

12. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

12.1 The Executive Director of Finance and Corporate Resources will report to Executive on treasury management activity / performance and Performance Indicators as follows:

- Quarterly against the Strategy approved for the year.
- The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- The Executive will be responsible for the scrutiny of treasury management activity and practices.

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13. Other Items

13.1 CIPFA's Code of Practice requires the Executive Director of Finance and Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Responsibility for scrutiny of the Treasury Management function will rest with the Executive. The Executive Director of Finance and Corporate Resources will ensure that adequate training is provided for all relevant Members during the financial year.

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

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Prudential Indicators 2016/17 – 2018/19

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure that the capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the 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. Further detail is provided in the Budget report.

Capital Expenditure and Financing	2015/16 Revised £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
General Fund	4,678	2,694	1,423	1,631
HRA	8,813	7,192	7,004	7,004
Total Expenditure	**13,491**	**9,886**	**8,427**	**8,635**
Capital Receipts	(1,800)	(500)	(500)	(500)
Government Grants	(870)	(621)	(621)	(621)
Reserves	(8,813)	(7,192)	(7,004)	(7,004)
Revenue	(53)	(475)	(50)	(50)
Borrowing	(1,955)	(1,098)	(252)	(460)
Total Financing	**(13,491)**	**(9,886)**	**(8,427)**	**(8,635)**

2. Capital Financing Requirement:

4.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken

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from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	15/16 Revised £'000	31.03.16 Estimate £'000	31.03.17 Estimate £'000	31.03.18 Estimate £'000
General Fund	16,000	19,380	22,320	23,120
HRA	122,160	122,160	122,160	122,160
Total CFR	**138,160**	**141,540**	**144,480**	**145,280**

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	31.03.16 Revised £000s	31.03.17 Estimate £000s	31.03.18 Estimate £000s	31.03.19 Estimate £000s
Borrowing	124,113	123,256	122,410	122,618
Finance leases	0	0	0	0
PFI liabilities	0	**0**	0	0
Total Debt	**124,113**	**123,256**	**122,410**	**122,618**

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

5. Actual External Debt:

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

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Actual External Debt as at 31/03/2015	**£'000**
Borrowing	109,000
Other Long-term Liabilities	-
Total	**109,000**

6. Authorised Limit and Operational Boundary for External Debt

6.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

6.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

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

6.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). This limit includes all HRA debt, including that borrowing taken for HRA self-financing in 2012.

Authorised Limit for External Debt	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**
Borrowing	140,000	140,000	140,000
Other Long-term Liabilities	0	0	0
Total	**140,000**	**140,000**	**140,000**

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6.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

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

Operational Boundary for External Debt	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	120,000	120,000	120,000	120,000
Other Long-term Liabilities	0	0	0	0
Total	**120,000**	**120,000**	**120,000**	**120,000**

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 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	16.59	16.46	18.25	19.44
HRA	11.39	11.55	11.72	11.89

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 proposed capital programme.

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Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	**4.13**	4.21	4.29
HRA - decrease in average weekly rents	**(0.81)**	(0.79)	(0.78)

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18th May 2005 and the updated 2011 Treasury Management Code at 15th January 2016.

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

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Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Executive to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.