

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2017/18 TO 2020/21
DATE OF DECISION:	13 FEBRUARY 2017 15 FEBRUARY 2017
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)

CONTACT DETAILS

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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2017/18 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
 - Security of invested capital
 - Liquidity of invested capital
 - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk

boundaries.

- To approve the 2017 Minimum Revenue Provision (MRP) Statement

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

	(i)	Endorse the Treasury Management (TM) Strategy for 2017/18 as outlined in the report.
	(ii)	Endorse the 2017 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 76 to 84.
	(iii)	Note that the indicators as reported have been set on the assumption that the recommendations in the Capital update report will be approved by Council on 15 February 2017. Should the recommendations change, the Prudential Indicators may have to be recalculated.
	(iv)	Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

	(i)	Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2017/18, 2018/19 and 2019/20, as detailed within the report.
	(ii)	Approve the 2016 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 76 to 84 and to delegate authority to the Chief Financial Officer (CFO) to approve any changes necessary that aid good financial management whilst maintaining a prudent approach.
	(iii)	Approve the Annual Investment Strategy as detailed in paragraphs 40 to 58.
	(iv)	Note that at the time of writing this report the recommendations in the Capital update report, submitted to Council on the 15 February 2017, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.
	(v)	Continue to delegate authority to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

1.	<p>In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:</p> <ul style="list-style-type: none"> • Treasury Management Strategy for 2017/18: <ul style="list-style-type: none"> ○ Borrowing – Paragraphs 27 to 38, ○ Debt Rescheduling – Paragraph 39 ○ Investments – Paragraphs 40 to 58 • Treasury Management Indicators – Paragraphs 59-75 • MRP Statement – Paragraphs 76 to 84 • Other Prudential Indicators – Paragraphs 85 to 107
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 15 February 2017.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
	BACKGROUND
4.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5.	As per the requirements of the Prudential code, the Authority adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and all its subsequent updates. The latest one being <i>Treasury Management in the Public Services: Code of Practice 2011 Edition</i> in February 2012.
6.	In addition, the Department for Communities and Local Government (CLG) issued revised <i>Guidance on Local Authority Investments</i> in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
7.	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.
8.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9.	The purpose of this TMSS is to allow Council to approve:

	<ul style="list-style-type: none"> • Treasury Management Strategy for 2017/18 • Annual Investment Strategy 2017/18 • Prudential Indicators for 2016/17, 2018/19 and 2019/20 • 2017 MRP Statement 																		
10.	The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 3) has also been taken into account in developing this strategy																		
11.	The Council acknowledges that effective TM 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 TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.																		
12.	Some alternative strategies, with their financial and risk management implications, are listed below.																		
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	<u>Economic Background</u>																		
13.	The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once																		

	the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.
14.	The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.
15.	Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.
16.	Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.
	<u>Credit Outlook</u>
17.	Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.
18.	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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.
	<u>Interest Rate Forecast</u>
19.	The Authority's treasury advisor, Arlingclose, central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.
20.	Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term

	economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.																																																												
21.	A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3																																																												
22.	For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25% for short term and 4.50% for long term, and that new long-term loans will be borrowed at an average rate of 2.25%.																																																												
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23.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.																																																												
24.	At 31/12/2016 the Authority held £340M of debt (£262M borrowing plus £78M other long term liabilities) and £75M investments which is set out in further detail in Appendix 1.																																																												
25.	Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.																																																												
26.	CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i> 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 will comply with this recommendation and shows the impact of the capital programme and maturing debt if no new borrowing was taken.																																																												
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27.	The long term borrowing forecast in Appendix 2 (table 4) shows that the																																																												

	<p>Authority expects to borrow up to £86.7M in 2016/17 and £71.8M in 2017/18, to fund the capital programme and to replace maturing debt, bringing the estimated total loan debt to £376.3M at the 31st March 2018.</p> <p>If it was cost effective the Authority could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing</p>
	<p><u>Objectives</u></p>
28.	<p>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.</p>
	<p><u>Strategy</u></p>
29.	<p>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.</p>
30.	<p>Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates are likely to remain, at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources and will look to borrow short-term loans instead</p>
31.	<p>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 and 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 modestly. Arlingclose 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 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.</p>
32.	<p>Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.</p> <p>In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.</p>
	<p><u>Sources</u></p>
33.	<p>The approved sources of long-term and short-term borrowing are:</p>

	<ul style="list-style-type: none"> • Public Works Loan Board (PWLB) and any successor body • 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 (except HCC Pension Fund) • capital market bond investors • UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
34.	<p>In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:</p> <ul style="list-style-type: none"> • operating and finance leases • hire purchase • Private Finance Initiative • sale and leaseback
35.	<p>The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans, bank loans and the Municipal Bond Agency (see paragraph below) which may be available at more favourable rates.</p>
36.	<p>UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any initial decision to borrow from the Agency will therefore be the subject of a separate report to both Governance Committee and Full Council. A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016.</p>
	<p><u>Lender's Option Borrower's Option Loans (LOBOs)</u></p>
37.	<p>The Authority holds £9M of LOBO loans 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. All of these LOBOS have options during 2017/18 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 will take the option to repay LOBO loans at no cost if it has the opportunity to do so.</p>
	<p><u>Short Term and Variable Rates</u></p>
38.	<p>Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.67% and are helping to keep the overall cost of borrowing down. Whilst in current climate of low interest rates this remains a sound strategy, these 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 (paragraph 61), the Council review these regularly and if appropriate will switch into fixed rate loans.</p>
	<p><u>Debt Rescheduling</u></p>

39.	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. Other 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 cost saving or a reduction in risk.
INVESTMENT STRATEGY	
40.	The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the financial year the Authority's investment balances have ranged between £62M and £109M and are currently £75M. Projected balances indicate that on present levels of spend balances will be lower than last year, but this will be dependent on any borrowing decisions taken. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk for example a covered bond.
<u>Objectives</u>	
41.	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 of incurring losses from defaults and the risk receiving unsuitably low investment income.
<u>Negative Interest Rates</u>	
42.	If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
<u>Strategy</u>	
43.	Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £40M that is available for longer-term investment. Appendix 1 shows the makeup of the Authority's current investments.
<u>Approved Counterparties</u>	
44.	The Authority may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed in Appendix 4.
45.	Credit Rating: Investment decisions are informed 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. However,

	investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
46.	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.
47.	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. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
48.	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.
49.	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.
50.	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 the likelihood of receiving government support if needed.
51.	<p>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 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.</p> <p>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.</p> <p>As part of the Authority strategy to generate income to help meet the budget gap, up to £20M which has been allocated within the capital programme for the Property Investment Fund will be invested these funds under the guidance of</p>

	our financial advisors.
52.	The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.
	<u>Risk Assessment and Credit Ratings</u>
53.	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>Where a credit rating agency announces that a 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.</p>
	<u>Other Information on the Security of Investments</u>
54.	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.
55.	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 for example, 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.
	<u>Specified Investments</u>
56.	The CLG Guidance defines specified investments as those: <ul style="list-style-type: none"> • denominated in pound sterling,

	<ul style="list-style-type: none"> • due to be repaid within 12 months of arrangement, • not defined as capital expenditure by legislation, and • invested with one of: <ul style="list-style-type: none"> ○ the UK Government, ○ a UK local authority, parish council or community council, or ○ a body or investment scheme of “high credit quality”. <p>The Authority defines “high credit quality” organisations 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.</p>												
<u>Non-Specified Investments</u>													
57.	Any investment not meeting the definition of a specified investment is classed as non-specified. Limits on non-specified investments are shown in Table 2 below. These have been increased from the previous strategy to allow for further investments in the CCLA and REITS as detailed in paragraph 51 above.												
	<p>Table 2 – Non Specified Investment Limits</p> <table border="1" data-bbox="328 898 1370 1261"> <thead> <tr> <th data-bbox="328 898 1181 987"></th> <th data-bbox="1181 898 1370 987" style="text-align: center;">Cash Limit</th> </tr> </thead> <tbody> <tr> <td data-bbox="328 987 1181 1043">Total long-term investments</td> <td data-bbox="1181 987 1370 1043" style="text-align: center;">£80M</td> </tr> <tr> <td data-bbox="328 1043 1181 1099">Total investments without credit ratings or rated below A-</td> <td data-bbox="1181 1043 1370 1099" style="text-align: center;">£50M</td> </tr> <tr> <td data-bbox="328 1099 1181 1155">Total investments in foreign countries rated below AA+</td> <td data-bbox="1181 1099 1370 1155" style="text-align: center;">£5M</td> </tr> <tr> <td data-bbox="328 1155 1181 1211"></td> <td data-bbox="1181 1155 1370 1211"></td> </tr> <tr> <td data-bbox="328 1211 1181 1261">Total non-specified investments</td> <td data-bbox="1181 1211 1370 1261" style="text-align: center;">£135M</td> </tr> </tbody> </table>		Cash Limit	Total long-term investments	£80M	Total investments without credit ratings or rated below A-	£50M	Total investments in foreign countries rated below AA+	£5M			Total non-specified investments	£135M
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Total investments without credit ratings or rated below A-	£50M												
Total investments in foreign countries rated below AA+	£5M												
Total non-specified investments	£135M												
58.	<p>Investment Limits: The Authority’s revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £64.3M at 31st March 2017. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and property funds) will be £10M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors in table 3 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Appendix 3 shows the current working limits in more detail.</p>												

Table 3 –Investment Limits

	Cash limit
Any single organisation, except the UK Central Government and property funds (subject to specific advice)	£10M each*
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group*
Any group of pooled funds under the same management	25% per manager unless under specific advice
Negotiable instruments held in a broker's nominee account	£70M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Unsecured investments with Building Societies	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds**	£10M* per fund and no more than 0.50% of any investments fund in total for non-government funds

**This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.*

***We would not normally invest more than 50% of our overall investment portfolio in MMF on the advice of our advisors, however as part of our revised strategy to reduce short term investments and move into longer term investments, there will be occasions as bonds mature when this limit is exceeded. This advice is with regards to cash flow risk, however we feel this is mitigated by spreading over a number of funds and not just the highest yielding ones and having funds in other instant access accounts. In addition money can be borrowed short term from the market on the day.*

Liquidity Management

The Authority undertakes high level cash flow forecasting 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.

TREASURY MANAGEMENT INDICATORS

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

	<u>Liquidity</u>																								
60.	The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £10M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available without given prior notice and at complete rates.																								
	<u>Interest Rate Exposure</u>																								
61.	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. 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.																								
	Table 4 – Upper Limits for Fixed and Variable Interest Rate Exposure																								
	<table border="1"> <thead> <tr> <th></th> <th>Existing Level 31 December 2014</th> <th>2014/15 Approved</th> <th>2016/17 Estimate</th> <th>2018/19 Estimate</th> <th>2017/18 Estimate</th> </tr> <tr> <th></th> <th>%</th> <th>%</th> <th>%</th> <th>%</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Upper Limit for Fixed Interest Rate Exposure</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> </tr> <tr> <td>Upper Limit for Variable Interest Rate Exposure</td> <td>50</td> <td>50</td> <td>50</td> <td>50</td> <td>50</td> </tr> </tbody> </table>		Existing Level 31 December 2014	2014/15 Approved	2016/17 Estimate	2018/19 Estimate	2017/18 Estimate		%	%	%	%	%	Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50
	Existing Level 31 December 2014	2014/15 Approved	2016/17 Estimate	2018/19 Estimate	2017/18 Estimate																				
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Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100																				
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50																				
	<u>Maturity Structure of Fixed Rate borrowing</u>																								
62.	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 as set out in Table 5 below:																								
	<table border="1"> <thead> <tr> <th></th> <th>Lower Limit %</th> <th>Upper Limit %</th> </tr> </thead> <tbody> <tr> <td>Under 12 Months</td> <td>0</td> <td>45</td> </tr> <tr> <td>12 months and within 24 months</td> <td>0</td> <td>45</td> </tr> <tr> <td>24 months and within 5 years</td> <td>0</td> <td>50</td> </tr> <tr> <td>5 years and within 10 years</td> <td>0</td> <td>75</td> </tr> <tr> <td>10 years and above</td> <td>0</td> <td>75</td> </tr> </tbody> </table>		Lower Limit %	Upper Limit %	Under 12 Months	0	45	12 months and within 24 months	0	45	24 months and within 5 years	0	50	5 years and within 10 years	0	75	10 years and above	0	75						
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12 months and within 24 months	0	45																							
24 months and within 5 years	0	50																							
5 years and within 10 years	0	75																							
10 years and above	0	75																							
63.	Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.																								

64. **Table 6** below details the level of our current fixed rate debt and shows that all debt is within existing limits.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/12/2016	Average Fixed Rate as at 31/12/2016	% of Fixed Rate as at 31/12/2016	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	39.4	3.10	17.29	Yes
12 months and within 24 months	0	45				Yes
24 months and within 5 years	0	50	49.5	3.23	21.72	Yes
5 years and within 10 years	0	75				Yes
20 years and within 30 years	0	75	15.0	4.65	6.59	Yes
30 years and within 40 years	0	75	77.9	3.83	34.22	Yes
40 years and within 50 years	0	75	45.9	3.54	20.18	Yes
			227.7	3.57	100	

Principal Sums Invested for Periods Longer than 364 days

65. 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 is shown in **Table 7**.

Table 7 – Principal Sums Invested for Periods Longer than 364 days

	Current £M	2017/18 £M	2018/19 £M	2019/20 £M
Limit on principal invested beyond year end	80	80	80	80

OTHER ITEMS

66. 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 Derivates

67. 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).

68. 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.
69.	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.
	<u>Housing Revenue Account Self-Financing</u>
70.	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.
71.	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. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.
	<u>Training</u>
72.	CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was last undertaken on the 2 November 2016. The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.
	<u>Treasury Management Advisors</u>
73.	The CLG's Guidance on local government investments recommend that the Investment Strategy should state: Whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and How the quality of any such service is controlled. The Council has a contract in place with Arlingclose Limited as treasury advisory service and receives the following services: <ul style="list-style-type: none"> • Credit advice • Investment advice

	<ul style="list-style-type: none"> • Technical advice • Economic & interest rate forecasts • Workshops and training events • HRA support • Ad hoc advice <p>The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.</p>
	<u>Investment of Money Borrowed in Advance of Need</u>
74.	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. The total amount borrowed will not exceed the authorised borrowing limit for the period. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.
	<u>FINANCIAL IMPLICATIONS</u>
75.	The budget for long term debt interest paid in 2017/18 is £9.9M based on an average debt portfolio of £345.8M and an average interest rate of 2.87%. Investment income for 2017/18 is budgeted at £1.4M based on an average portfolio of £50M at an average of 2.80%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondently different.
	<u>2017/18 MINIMUM REVENUE PROVISION (MRP) STATEMENT</u>
76.	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.
77.	The CLG Guidance requires the Authority to approve an Annual MRP Statement each year. We have undertaken a prudency review of borrowing prior to the prudential regime and have agreed to charge the regulatory method for borrowing prior to the prudential regime (over a 50 year life) and the asset life method for prudential borrowing.
78.	The exception to this is investment properties acquired as part of the Property Investment Fund which have been purchased with a view to generating long term rental income streams to support the delivery of Council services in the future and reduce dependence on Central Government funding, in this case we have adopted the depreciation method. As investment properties these assets are valued each year and any downward

	movement in the value for the year (i.e. depreciation) will be spread over the remaining life of the asset as a charge to revenue in lieu of MRP.																																																																											
79.	We will continue to review MRP and it is proposed that delegated powers should be given to the CFO to change the proposed methods to aid good financial management whilst maintaining a prudent approach Any changes to the original MRP Statement during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.																																																																											
80.	Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.																																																																											
81.	MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.																																																																											
82.	Capital expenditure incurred during 2017/18 and funded from borrowing will not be subject to a MRP charge until 2018/19																																																																											
83.	Based on the Authority's latest estimate of its Capital Financing Requirement on 31 March 2017 the budget for MRP has been set on the assumption that we will be using the regulatory method for borrowing prior to the prudential regime (over the remainder of a 50 year life) and using the asset life method for prudential borrowing where it applies.																																																																											
84.	The current and estimated levels of MRP and CFR are shown in Table 8 below:																																																																											
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85.	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.																																																								
86.	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.																																																								
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87.	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.																																																								
<u>Gross Debt and the Capital Financing Requirement</u>																																																									
88.	This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the approved budget.																																																								
89.	There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.																																																								
90.	The estimated gross debt and capital financing requirement is shown in the tables below: Table 9 – Gross Debt																																																								
<table border="1"> <thead> <tr> <th>Gross Debt</th> <th>31/03/2016 Actual £M</th> <th>31/03/2017 Estimate £M</th> <th>31/03/2018 Estimate £M</th> <th>31/03/2019 Estimate</th> <th>31/03/2020 Estimate £M</th> <th>31/03/2021 Estimate £M</th> </tr> </thead> <tbody> <tr> <td>Borrowing (Long Term)</td> <td>85.81</td> <td>144.33</td> <td>183.32</td> <td>194.86</td> <td>197.63</td> <td>197.13</td> </tr> <tr> <td>Borrowing (Short Term)</td> <td>8.35</td> <td>40.35</td> <td>40.35</td> <td>40.35</td> <td>40.35</td> <td>40.35</td> </tr> <tr> <td>Finance leases and Private Finance Initiatives</td> <td>64.90</td> <td>62.26</td> <td>60.42</td> <td>58.32</td> <td>55.31</td> <td>52.14</td> </tr> <tr> <td>Transferred Debt</td> <td>15.28</td> <td>14.92</td> <td>14.55</td> <td>14.19</td> <td>13.83</td> <td>13.46</td> </tr> <tr> <td>Total General Fund Debt</td> <td>174.34</td> <td>261.87</td> <td>298.65</td> <td>307.73</td> <td>307.12</td> <td>303.08</td> </tr> <tr> <td>HRA</td> <td>155.00</td> <td>171.77</td> <td>193.07</td> <td>193.13</td> <td>184.68</td> <td>185.17</td> </tr> <tr> <td>Total Debt</td> <td>329.34</td> <td>433.60</td> <td>491.70</td> <td>500.90</td> <td>491.80</td> <td>488.20</td> </tr> </tbody> </table>		Gross Debt	31/03/2016 Actual £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M	31/03/2019 Estimate	31/03/2020 Estimate £M	31/03/2021 Estimate £M	Borrowing (Long Term)	85.81	144.33	183.32	194.86	197.63	197.13	Borrowing (Short Term)	8.35	40.35	40.35	40.35	40.35	40.35	Finance leases and Private Finance Initiatives	64.90	62.26	60.42	58.32	55.31	52.14	Transferred Debt	15.28	14.92	14.55	14.19	13.83	13.46	Total General Fund Debt	174.34	261.87	298.65	307.73	307.12	303.08	HRA	155.00	171.77	193.07	193.13	184.68	185.17	Total Debt	329.34	433.60	491.70	500.90	491.80	488.20
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Table 10 – Movement in CFR																																																									

	31/03/2016 Actual £M	31/03/2017 Forecast £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M
Balance Brought forward	274.10	280.80	336.38	373.54	377.90	371.78
New Borrowing	9.70	58.47	39.37	12.06	3.25	0.50
MRP	(4.50)	(5.00)	(5.40)	(5.85)	(5.99)	(5.98)
Appropriations (to) from HRA	(0.60)					
Movement in Other Liabilities	(2.40)	(2.90)	(2.21)	(2.46)	(3.38)	(3.54)
MRP Holiday	4.50	5.00	5.40	0.62	0.00	0.00
Total General Fund Debt	280.80	336.38	373.54	377.90	371.78	362.77
HRA (see table 16 for breakdown)	155.00	171.77	193.07	193.13	184.68	185.17
Total CFR	435.80	508.14	566.61	571.03	556.46	547.94

Estimates of Capital Expenditure

91. The Authority's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA Capital programme report submitted elsewhere on the agenda.

92. **Table 11 – Capital Expenditure**

Capital Expenditure and Financing	Revised 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M
General Fund	94.83	78.11	23.96	5.64	2.92
HRA	58.44	59.01	42.27	32.85	41.05
Total Expenditure	153.27	137.12	66.23	38.49	43.97
Capital receipts	10.07	10.79	8.44	2.33	1.38
Capital Grants	27.02	22.55	6.78	2.12	2.12
Contributions	5.80	4.31	2.13	0.00	0.00
Other Council Resources	19.89	19.27	19.45	19.78	20.19
Major Repairs Allowance	9.65	13.93	11.39	1.52	9.74
Total Financing	72.43	70.85	48.19	25.75	33.43
Council Resources - borrowing	80.83	66.27	18.04	12.74	10.54
Total Funding	80.83	66.27	18.04	12.74	10.54
Total Financing & Funding	153.26	137.12	66.23	38.49	43.97

Ratio of Financing Costs to Net Revenue Stream

93. 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 borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme.

94. This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP, which is the main contributor for the increase in 2019/20 and 2020/21. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Table 12 – Ratio of Financing Costs to Net Revenue Stream

95.	Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Forecast %	2018/19 Estimate %	2017/18 Estimate %	2019/20 Estimate %	2020/21 Estimate %
	General Fund	5.80%	5.86%	6.00%	6.69%	6.98%	5.59%
	HRA	14.07%	14.10%	14.98%	15.69%	31.44%	20.35%
	Total	9.18%	9.29%	9.26%	10.02%	14.94%	10.22%
<u>Incremental Impact of Capital Investment Decisions</u>							
96.	<p>This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are shown below. These figures exclude any borrowing taken for Invest to Save schemes, as borrowing costs will be offset by income generation.</p>						
Table 13– Incremental Impact of Capital Investment Decisions							
97.	Incremental Impact of Capital Investment Decisions	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	
		£	£	£	£	£	
	Increase / (Decrease) per average number of equivalent band D properties for Council Tax purposes	7.44	5.40	24.88	31.15	9.68	
	Increase in Average Weekly Housing Rents	58.89	59.01	42.27	32.85	41.05	
98.	<p>It should be noted that these indicators are for illustrative purposes only and show the amount per equivalent band D properties that this change would equate to since the last capital update published in September.</p>						
99.	<p>As per the General Fund these indicators are illustrative as HRA rent levels are currently set under the Government’s rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.</p>						
<u>Authorised Limit and Operational Boundary for External Debt</u>							
100.	<p>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.</p>						
101.	<p>The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding 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</p>						

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.

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, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. 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).

Table 14 – Authorised Limit for External Debt

102.	Authorised Limit for External Debt	Actual 31 December 2016	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
		£M	£M	£M	£M	£M	£M
	Borrowing	263	651	817	821	846	862
	Other Long-term Liabilities	78	87	81	79	77	73
	Total	341	738	898	900	923	935

103. The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow 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

Table 15–Operational Boundary for External Debt

104.	Operational Boundary for External Debt	Actual 31 December 2016	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
		£M	£M	£M	£M	£M	£M
	Borrowing	263	509	566	514	519	542
	Other Long-term Liabilities	78	87	81	79	77	73
	Total	341	596	647	593	596	615

105. The CFO has delegated authority, within the above limits 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. Council will be notified of any use of this delegated authority.

HRA Limit on Indebtedness

106. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing. The HRA is still within the HRA Debt Cap set CLG of £199.6M.

Table 16 – HRA Limit on Indebtedness

107.	HRA Limit on Indebtedness	2016/17 Forecast £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
	Brought Forward	155.00	171.77	193.07	193.13	184.68
	Maturing Debt	(5.59)	(5.59)	(5.93)	(17.94)	(9.55)
	New borrowing	22.36	26.89	5.99	9.49	10.04
	Carried forward	171.77	193.07	193.13	184.68	185.17
	HRA Debt Cap (as prescribed by CLG)	199.60	199.60	199.60	199.60	200.60
	Headroom	27.83	6.53	6.47	14.92	15.43

RESOURCE IMPLICATIONS

Capital/Revenue

108. The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.

Property/Other

109. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

110. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

111. None

POLICY FRAMEWORK IMPLICATIONS

112. This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION?	No
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WARDS/COMMUNITIES AFFECTED:		None
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Existing Investment & Debt Portfolio Position and Projections	
2.	Forecast Long Term Borrowing Requirement and Debt	
3.	Economic and Interest Outlook	
4.	Counterparty Cash and Time Limits	
5.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19	Item 6
2.	Treasury Management Strategy and Prudential Limits Midyear Review 2016	Item 9