

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
25 March 2015

From: Director of Support Services and Deputy Chief Executive

Subject: **REVIEW OF ANNUAL TREASURY MANAGEMENT STRATEGY 2015/16**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to give the Committee an opportunity to review the Council's Treasury Management Strategy for the forthcoming financial year 2015/16.
- 1.2 The collapse of the Icelandic banks in October 2008 highlighted the large sums of public money on deposit with financial institutions outside as well as inside the UK. A total of 127 local authorities had investments totalling £954m in one or more of the Icelandic banks (Hambleton was not one of them).
- 1.3 Following the collapse and in accordance with the Audit Commission's recommendations in their subsequent report "Risk and Return – English local authorities and the Icelandic banks" Cabinet agreed that the Council's Annual Treasury Management Strategy should be subject to Member scrutiny and that the scrutiny be fulfilled by the Audit and Governance Committee. This scrutiny role is now within the Committee's terms of reference.
- 1.4 Attached as Annex 'A' is the "2015/16 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators 2015/16" report which was approved by Cabinet at its meeting on 10 February 2015.
- 1.5 Paragraph 4.3 of the Cabinet report summarises the proposed strategy for 2015/16 as:-
 - The Council's Capital Financing Requirement and the potential need to borrow only in relation to the loan to Broadacres Housing Association;
 - The minimum revenue provision policy is defined detaining the minimum revenue payments that are required to be made for the borrowing in relation to the Broadacres loan;
 - The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
 - Investment of surplus funds can be made to other Local Authorities, nationalised Banks, Banks which are part of the UK banking system support package, as well as other UK Banks and Building Societies, subject to the application of Capita Asset Services' credit worthiness criteria;
 - Investments of surplus funds can be made in foreign Banks and institutions of AA sovereign rated countries subject to Capita Asset Services' credit worthiness criteria;
 - Limits for all investments to be placed with specified and non specified investments are:

Individual Limits – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are two exceptions to this policy:

- (a) with counterparties that are backed by the Government – Bank of Scotland, Royal Bank of Scotland, Lloyds, Natwest, Ulster Bank – (and therefore are more secure) there will be a 50% limit or £12m per counterparty whichever is the higher.
- (b) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

It should be noted that it is expected during 2015/16, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. However, if the group limit was the same as the individual limit it would be too restrictive for the placing of investments when applied to our list of approved counterparties. This policy therefore sets the group limit at 60% of fund value. Individual limits for any counterparty within the group will be as stated above. There is one exception to this policy

- (a) where the group is for Government backed institutions the group limit will be 80% of the fund value.

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approval of this report. The report will ensure that the Committee fulfils its terms of reference and more importantly scrutinises a key policy of the Council.
- 2.2 The risk of not approving the report is that the Council has an inappropriate Treasury Management Strategy and that funds may be put at risk or returns on investments are reduced.

3.0 RECOMMENDATION:

- 3.1 It is recommended that Members review the Council's Treasury Management Strategy for 2015/16 and make any appropriate recommendations to Cabinet.

JUSTIN IVES

Background papers: None
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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
10 February 2015

Subject: 2015/16 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT
STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 This report considers the 10 year Capital Programme covering the financial years 2015/16 to 2024/25, the 2015/16 Capital Programme and the Treasury Management Strategy Statement; including the Annual Investment Strategy and Minimum Revenue Provision Policy Statement.
- 1.2 The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council has the option to continue with its principle of not borrowing to finance its own capital expenditure. The Financial Strategy which supports the Capital Programme 2015/16 to 2014/25 is being approved at this February 2015 Cabinet.
- 1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3 year period. The 10 year Capital Programme 2015/16 to 2024/25 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.
- 1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2015/16 Capital Programme is detailed in this report.
- 1.5 The Treasury Management Strategy Statement includes the Annual Investment Strategy and the Minimum Revenue Policy Statement and ensures that the funding of the Capital Programme is affordable, sustainable and prudent. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.
- 1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.
- 1.7 This report seeks approval for
- (a) the 10 year Capital Programme 2015/16 to 2024/25
 - (b) the Capital Programme for the coming financial year 2015/16, which is informed by the 10 year Capital Programme
 - (c) the Treasury Management Strategy Statement 2015/15
 - (d) the Minimum Revenue Policy Statement 2015/16
 - (e) the Prudential and Treasury Indicators 2014/15

2.0 **10 YEAR CAPITAL PROGRAMME 2015/16 to 2024/25:**

2.1 The 10 year Capital Programme 2015/16 to 2024/25 shows capital expenditure of £52,554,300, which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £60,755,855. The Financial Strategy supports this 10 year Capital Programme which shows it is affordable, sustainable and prudent over the long term, leaving a balance of funding of £8,201,555.

2.2 The 10 Year Capital Programme 2015/16 to 2024/25 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	5,900,000
Computer Fund	2,660,000
Capital Receipts Reserve	3,994,300
Economic Development Fund	5,000,000
Borrowing / Surplus Funds	<u>35,000,000</u>
	52,554,300

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3 and A4.

2.3 **Repairs and Renewals Fund** - Annex A1 details the funding available in the Repairs and Renewals Fund, together with a detailed estimate of the schemes that will utilise this funding over the next 10 years. This fund will be used to fund all repairs and renewals, including those in the revenue budget. This practice will protect the repairs budget, as in the previous year, from being used to fund other items of expenditure and eliminate excessive spending at the end of the year.

2.4 **Computer Fund** - Annex A2 details the funding available in the Computer Fund, together with an estimate of how this funding will be utilised over the next 10 years. No specific schemes are detailed other than the website project because it is envisaged that schemes will emerge from the review of all services over the next 12 – 18 months, which will provide the detail of the computer programme.

2.5 The Repairs and Renewals Fund and Computer Fund at the end of the 10 year Strategy will require additional funding to be allocated to continue necessary investment. This will be facilitated by income generation opportunities available to the Council and continued revenue efficiencies savings from existing budgets.

2.6 **Capital Receipts Reserve** - Annex A3 details the funding available in the Capital Receipts Reserve, together with an estimate of future receipts and the detailed schemes to be financed from the Reserve over the next 10 years. The Capital Receipts Reserve has sufficient balances to continue to fund capital expenditure beyond the 10 year Capital Programme.

2.7 **Economic Development Fund** – Annex A4 details the Economic Development Fund which was created in 2014/15 and £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014 and currently funding is allocated on an even basis £500,000 throughout the 10 year period. Additional funding is allocated to the Economic Development Fund in 2023/24.

~~2.8~~ **Borrowing / Surplus funds** – On 16 December 2014 Cabinet approved the loan to Broadacres Housing Association to assist the local area in increasing housing opportunities for the community. The maximum amount of the loan is potentially £35,000,000 and therefore, for the purpose of prudent provision, it is estimated that the total amount will be borrowed in the year 2015/16. There is still the flexibility that surplus funds could contribute to the funding of the loan and both these options will be considered in the light of the treasury management economic and interest rate environment.

~~2.9~~ In preparing the 10 year Capital Programme a number of schemes were put forward that were deemed not to be business critical at this time and therefore are not incorporated in the 10 year Capital Programme. These schemes will be reassessed in the future and incorporated into future capital programmes, if they become business critical.

3.0 2015/16 CAPITAL PROGRAMME BUDGET:

~~3.1~~ The Capital Programme 2015/16 totals £36,854,300 and is funded as follows:

	£
Repairs and Renewals Fund	751,000
Computer Fund	277,000
Capital Receipts Reserve	1,326,300
Economic Development Fund	500,000
Borrowing / Surplus Funds	<u>35,000,000</u>
	37,854,300

~~2.4~~ The Capital Programme 2015/16 is attached at Annex 'B'. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes. In addition, where a scheme appears for a number of years, an estimation of the costs in future years is also given.

~~3.2~~

~~2.7~~ All schemes have been assessed to allow a considered and informed judgement to be made in respect of the Value for Money of each scheme. It is believed that each scheme does represent value for money. The reasons for this judgement are:-

~~3.3~~

- each scheme contributes towards the attainment of a particular Business Plan target and a number have clear community benefits;
- a number of schemes generate ongoing revenue savings;
- although the cost of each scheme is indicative, prior to implementation each scheme will follow the Council's procurement process to ensure best value is achieved;
- each scheme has a clear completion date.

~~2.8~~ A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Capital Monitoring Group, which is chaired by the Director of Support Services & Deputy Chief Executive and attended by the Director of Environmental Services and Director of Customer & Leisure Services.

~~3.4~~

~~2.9~~ The 10 year Capital Programme and the 2015/16 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

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2014/15 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

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4.1

The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2015/16. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex 'C'. Specifically the Treasury Management Strategy:

- Sets out the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code, the CIPFA Treasury Management Code of Practice and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment Guidance;
- Identifies reporting arrangements and responsibilities;
- Clarifies the potential requirement to borrow only for the loan to Broadacres Housing Association;
- Clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;
- Identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;
- Calculates the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements.

~~3.2~~

4.2

Approval of the Treasury Management Strategy Statement is required by the Local Government Act and code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Capita Asset Services, in constructing this strategy.

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4.3

The Treasury Management Strategy Statement for 2015/16 reflects the improved stability of the banking sector and the support given by national Governments, as well as a more risk averse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2015/16 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow only in relation to the loan to Broadacres Housing Association;
- The minimum revenue provision policy is defined detaining the minimum revenue payments that are required to be made for the borrowing in relation to the Broadacres loan;
- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
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- (b) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

It should be noted that it is expected during 2015/16, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

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- (a) where the group is for Government backed institutions the group limit will be 80% of the fund value.

~~3.5~~ 4.4 The Treasury Management Strategy Statement 2015/16 also includes the revised Treasury Management Policy Statement which is attached at Annex 'D' and is recommended to be approved by Cabinet and Council in accordance with the revised CIPFA Treasury Management Code of Practice 2011.

~~3.6~~ 4.5 The Scheme of Delegation and the Role of the S151 Officer (Director of Support Services & Deputy Chief Executive), in relation to Treasury Management, details that those charged with governance are responsible for Treasury Management activities within the organisation, this is attached at Annex 'E' and is recommended to be approved by Cabinet and Council.

~~3.7~~ 4.6 The Prudential and Treasury Management Indicators are detailed in the main body of the Treasury Management Strategy Statement attached at Annex 'C'. It is recommended that the Prudential and Treasury Management indicators are approved by Cabinet and Council.

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LINK TO COUNCIL PRIORITIES:

~~4.4~~ 5.1 This report links to the efficient use of Council resources, where the Capital Programme 2015/16 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

6.0

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RISK ASSESSMENT:

5.4

There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2015/16:

6.1

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2015/16 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.
Treasury management function is a high risk area due to the volume and level of large investment money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

7.0

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FINANCIAL IMPLICATIONS:

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The financial implications are contained within the body of the report.

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LEGAL IMPLICATIONS:

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8.1

The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2015/16 and future years. This report provides detail of the Capital programme 2015/15 and also includes the requirements for the Treasury Management Strategy Statement.

~~7.2~~

8.2

Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

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EQUALITY/DIVERSITY ISSUES:

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9.1

Some capital schemes have specific implications for Equalities. The equalities implications of the individual schemes will be assessed by individual departments once the Capital Programme 2015/16 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

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RECOMMENDATIONS:

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It is recommended that Cabinet approves and recommends to Council that:-

10.1

- 1) the 10 year Capital Programme 2015/16 to 2016/17 at £52,554,300 be approved, as detailed in paragraph 2.2 and attached at Annex 'A';
- 2) The Capital Programme 2015/16 at £37,854,300 detailed in Annex 'B' be approved for implementation;
- 3) the Treasury Management Strategy attached at Annex 'C' be approved;
- 4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex 'C' be approved;
- 5) the Prudential and Treasury Indicators attached at Annex 'C' in the body of the Treasury Management Strategy Statement be approved;
- 6) the revised Treasury Management Policy Statement at Annex 'D' be approved;
- 7) the Scheme of Delegation and role of the S151 Officer attached at Annex 'E' be approved.

JUSTIN IVES

Background papers: None

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	REPAIRS AND RENEWALS FUND										Total	
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10		Yr 11
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening balance	0	0	0	0	0	0	0	0	0	0	0	0
Add: Transfers from Transport Reserve	0	0	0	0	0	0	0	0	0	0	0	0
Add: Leisure Revenue Budget - Equipment Lease	0	0	0	0	0	0	0	0	0	0	0	0
LESS: Trf to Computer Fund	100,000	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
	(3,982,000)	(3,417,000)	(2,700,000)	(3,209,000)	(2,700,000)	(2,210,000)	(1,635,000)	(1,060,000)	(875,000)	(715,000)	(564,000)	(413,000)
EXPENDITURE												
Revenue Repairs	399,350	425,000	435,000	445,000	455,000	465,000	475,000	485,000	495,000	505,000	515,000	525,000
Public lighting replacement	69,516	51,000	51,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Purchase of bins and boxes for refuse and recycling	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Civic Centre- Capital Replacement	17,000	0	0	0	0	0	0	0	0	0	0	0
Civic Centre- Internal Painting	0	0	0	0	0	0	0	0	0	0	0	0
Civic Centre- Window Replacements	10,000	0	0	0	0	0	0	0	0	0	0	0
Leisure Equipment Lease Buy	0	200,000	0	0	0	0	0	0	0	0	0	0
Gym equipment refresh	0	24,000	0	24,000	0	20,000	0	0	0	0	0	0
Pool Tank This Hamilton Leisure Centre	0	0	0	0	0	0	0	0	0	0	0	0
Car Parks - Reinforcements	0	0	0	0	0	0	0	0	0	0	0	0
Air conditioning - Lapsolaine requirement Leisure	20,000	15,000	15,000	0	0	0	0	0	0	0	0	0
Civic Centre - Backup Generator	40,000	0	0	0	0	0	0	0	0	0	0	0
TOTAL REPAIRS AND RENEWALS CAPITAL EXP	208,871	320,000	192,000	94,000	77,000	115,000	72,000	101,000	132,000	164,000	172,000	170,000
BALANCE ON REPAIRS & RENEWALS FUND	(3,377,000)	(2,661,000)	(2,166,000)	(2,840,000)	(2,175,000)	(1,635,000)	(1,060,000)	(715,000)	(564,000)	(413,000)	(264,000)	(113,000)

CAPITAL RECEIPTS RESERVE		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Total
		£	£	£	£	£	£	£	£	£	£	£	£
INCOME													
Capital Receipts Funding b/Fund	(3,352,784)	(2,685,496)	(2,840,366)	(2,840,296)	(2,631,196)	(2,228,096)	(2,149,996)	(2,101,897)	(1,490,797)	(1,442,697)			
Capital Receipts Estimated	(857,707)	(412,000)	0	0	0	0	0	0	0	0	0	0	
Estimated Grants (DFG)	(196,277)	(190,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)			
Estimated Grants (LEP)	0	0	0	0	0	0	0	0	0	0			
Estimated Grants (Sport England)	(50,427)	(100,000)	0	0	0	0	0	0	0	0			
Gov FTI - Solar panels		(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)			
Total Estimated Capital Receipts	(4,538,195)	(3,285,396)	(3,048,296)	(2,956,196)	(2,739,096)	(2,533,996)	(2,351,897)	(2,259,797)	(1,584,697)	(1,550,597)			(6,384,697)
EXPENDITURE													
Disabled Facilities Grants	230,379	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000			1,620,000
Humblyton All Weather Pitch Refurbishment		131,000	0	0	0	0	0	0	0	0			131,000
Car Park Refurbishments	45,000	30,000	20,000	20,000	50,000	0	0	282,000	0	0			388,000
Buddle Gateway Car Park	160,000	0	20,000	20,000	160,000	10,000	0	0	0	0			452,000
Humblyton Leisure Centre Improvement Scheme	35,323	275,000	0	0	0	0	0	0	0	0			275,000
Adoptive Littering Bar		150,000	0	0	0	0	0	0	0	0			150,000
Car Parks - 1600 Huddesons Hoppacaments		0	0	0	0	0	0	140,000	0	0			140,000
Humblyton Leisure Centre Wave Machine		0	0	0	0	0	0	120,000	0	0			120,000
Chic Centre - Access Card Reader System		0	0	0	0	0	0	0	0	0			0
District Council Boundary Signs		0	0	0	0	0	0	0	0	0			0
Central Depot - Additional Parking		0	0	0	0	0	0	0	0	0			0
Pest Control Vehicle		0	0	0	0	0	0	0	0	0			0
Stokley Depot - Security Fencing		0	0	0	0	0	0	0	0	0			0
Leisure Centre Automatic Doors		0	0	0	0	0	0	0	0	0			0
New Schemes - 2015/16		0	0	0	0	0	0	0	0	0			0
		8,000	8,000	8,000	8,000	8,000	8,000	32,000	8,000	8,000			8,000
		457,390	457,390	457,390	457,390	457,390	457,390	457,390	457,390	457,390			4,573,900
		1,320,390	1,320,390	1,320,390	1,320,390	1,320,390	1,320,390	1,320,390	1,320,390	1,320,390			11,523,570
TOTAL CAPITAL RECEIPTS/EXPENDITURE		1,467,399	1,320,390	264,000	(2,140,396)	(2,238,096)	(2,191,897)	(1,490,797)	(1,434,697)	(1,490,597)	150,000	(1,490,597)	3,894,399
BALANCE ON Capital receipts reserve		(3,081,796)	(2,581,406)	(2,340,396)	(2,431,196)	(2,238,096)	(2,191,897)	(1,490,797)	(1,434,697)	(1,490,597)	150,000	(1,490,597)	(6,384,697)

	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5	Yr-6	Yr-7	Yr-8	Yr-9	Yr-10	Yr-11	Total
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	£
ECONOMIC DEVELOPMENT FUND												
REVENUE												
Operating Balance	(5,000,000)	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(500,000)	(5,000,000)	(10,500,000)
Add: Transfers from Taxpayers Reserve	(5,000,000)	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(500,000)	(5,000,000)	(10,500,000)
EXPENDITURE												
Economic Development Capital Expenditure	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	5,000,000
BALANCE ON ECONOMIC DEVELOPMENT FUND	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(500,000)	(500,000)	(500,000)	(4,500,000)

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
Clr Phillips MJ	Environmental & Planning Services Purchase of bins and boxes for refuse and recycling	38,000		38,000	Ongoing
Clr Fortune DG	Customer & Leisure Services Gym equipment refresh	24,000		24,000	Jun-15
DG	Leisure Equipment Lease Buy	200,000	200,000	0	Mar-16
Clr Knapton JI	Support Services Public lighting replacement	51,000		51,000	Mar-16
JI	Air Conditioning - Legislation requirement Corporate	15,000		15,000	Ongoing
JI	Repairs & Renewals - Revenue	425,000		425,000	Mar-16
	Repairs & Renewals Fund Capital Programme 2015/16	751,000	200,000	551,000	
Cabinet Member/ Responsible Officer	Computer Fund	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
Clr Fortune DG	Customer & Leisure Services Web / Intranet Development	17,100	0	17,100	Jul-15
Clr Knapton JI	Support Services ICT Improvements	259,900	0	259,900	Mar-16
	Computer Fund Capital Programme 2015/16	277,000	0	277,000	
Cabinet Member/ Responsible Officer	Capital Fund	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
Clr Phillips MJ	Environmental & Planning Services Disabled Facilities Grant	270,000	100,000	170,000	Mar-16
MJ	Waste and Street Scene - Telematics	30,000		30,000	Dec-15
MJ	Waste and Street Scene - Training Room	8,000		8,000	Jun-15
MJ	Waste and Street Scene, Central Depot - Dog, Litter Bins	14,000		14,000	Jun-15
MJ	Central Depot - Additional Parking	8,000		8,000	
Clr Fortune DG	Customer & Leisure Services Hambledon Leisure Centre - Fire Alarm System	25,000		25,000	Dec-15
DG	Hambledon Leisure Centre - External Render	8,000		8,000	Sep-15
DG	Hambledon Leisure Centre - Pool Balustrades	15,000		15,000	Dec-15
DG	Hambledon Leisure Centre - Pool Changing Village	85,000		85,000	Mar-16
DG	Hambledon All Weather Pitch Refurbishment	131,000		131,000	Sep-15
DG	Hambledon Leisure Centre Improvement Scheme	275,000		275,000	Mar-16
DG	Bedale Leisure Centre - Boiler and Air Handling Unit	17,000		17,000	Dec-15
DG	Thirsk & Sowerby Leisure Centre - Roof & Ceiling Repairs	11,000		11,000	Sep-15
DG	Stokasley Depot - Security Fencing	8,000		8,000	Sep-15
DG	Forum - Capital Repairs	41,300		41,300	Sep-15
DG	Solar Panels - Civic Centre	87,000		87,000	Mar-16
DG	CCTV Camera Replacement Programme	93,000		93,000	Dec-15
DG	Workspaces - Decoration and Furniture	17,000		17,000	Sep-15
DG	Workspaces Air Con Refurbishments	8,000		8,000	Ongoing
Clr Knapton JI	Support Services Car Park Reinstatements	27,000		27,000	Nov-15
JI	Adoption of Roads - Leeming Bar	150,000		150,000	Mar-16
	Capital Fund Capital Programme 2015/16	1,324,300	100,000	1,224,300	
Cabinet Member/ Responsible Officer	Economic Development Fund	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
Clr Fortune DG	Customer & Leisure Services Economic Development Capital Expenditure	500,000		500,000	Ongoing
	Economic Development Capital Programme 2015/16	500,000	0	500,000	
Cabinet Member/ Responsible Officer	Borrowing / Surplus Funds	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
Clr Knapton JI	Support Services Loan to Housing Association	35,000,000	35,000,000	0	Mar-16
	Borrowing / Surplus Funds Programme 2015/16	35,000,000	35,000,000	0	
Cabinet Member/ Responsible Officer	Total Capital Programme 2015/16	2015/16			Estimated completion date
		Indicative Value £	Third Party Contribution £	Cost to the Council £	
	Environmental & Planning Services	368,000	100,000	268,000	
	Customer & Leisure Services	1,980,400	200,000	1,780,400	
	Support Services	85,927,800	35,000,000	50,927,800	
	Total Capital Programme 2015/16	37,634,300	36,300,000	2,334,300	

**TREASURY MANAGEMENT STRATEGY STATEMENT -
MINIMUM REVENUE POSITION STRATEGY and
ANNUAL INVESTMENT STRATEGY 2015/16**

1.0 INTRODUCTION:

1.1 Background

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

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

1.1.3 CIPFA defines Treasury Management as:

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

1.2 Reporting Requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. In addition quarterly review reports provide a regular update to cabinet.

Prudential and Treasury Indicators and Treasury Strategy (This report)

1.2.2 The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report

1.2.3 This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, this Council will receive quarterly update reports.

An Annual Treasury Report

1.2.4 This provides details of a selection of actual prudential and treasury indicators, including investment activity, and actual treasury operations compared to the estimates within the strategy.

1.2.5 The above reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by Cabinet.

1.3 Treasury Management Strategy for 2015/16

1.3.1 The strategy for 2015/16 covers two main areas:

(a) Capital Issues

- the capital plans and the prudential indicators
- the Minimum Revenue Provision (MRP) policy

(b) Treasury Management Issues

- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- credit worthiness policy
- policy on use of external service providers
- Member training

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment guidance.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18:

2.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members overview and confirm their understanding of the Capital Programme.

Capital Expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

Capital Expenditure	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total		3,087,427	37,937,300	1,602,000	1,541,000

2.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. The Council has no PFI schemes.

2.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a

funding need (borrowing). In 2015/16, borrowing may occur only to fund the loan the Council is proposing to make to Broadacres Housing Association.

Capital Expenditure £000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total		3,087,427	37,937,300	1,602,000	1,541,000
Financed by:					
Capital receipts		1,181,695	1,006,300	157,100	92,100
Capital grants		285,704	320,000	107,900	107,900
Capital reserves		1,620,028	1,571,000	1,297,000	1,301,000
Revenue		0	40,000	40,000	40,000
Net financing need for the year		-	35,000,000	-	-

The Council's Borrowing Need (the Capital Financing Requirement)

- 2.5 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and also includes any capital expenditure to be funded from borrowing in future years. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 2.6 The CFR does not increase indefinitely as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.
- 2.7 For the past few years, the CFR has remained at zero as the Council has been debt free and has had no underlying borrowing requirement. In 2015/16, due to the loan to Broadacres Housing Association the CFR will increase by the total amount of that loan. The total amount that can be loaned has been used in the estimate of the CFR as this is the prudent position, as it provides the Council with the flexibility to use borrowing for the total amount of the loan if it chooses to do so but still allows the use of surplus funds. At the time the loan is taken consideration will be given to the Treasury Management environment to ensure that the best option to fund the loan to Broadacres Housing Association is taken.
- 2.8 The CFR also includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.
- 2.9 The Council is asked to approve the CFR projections below:-

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
CFR – non housing	-	0	35,000,000	35,000,000	35,000,000
CFR - housing	-	0	0	0	0
Total CFR	-	-	35,000,000	35,000,000	35,000,000
Movement in CFR	-	0	35,000,000	0	0

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Movement in CFR represented by					
Net financing need for the year (above)	-	0	35,000,000	0	0
Less MRP and other financing movements	-	0	0	0	0
Movement in CFR	0	0	35,000,000	0	0

Minimum Revenue provision (MRP) Policy Statement

- 2.10 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off part of the Capital Financing Requirement (the accumulated General Fund capital expenditure) on a regular basis through a revenue charge known as the Minimum Revenue Provision – MRP. This is an amount which the Council deems to be a prudent provision to reduce its borrowing. In addition to MRP, the Council is also allowed to undertake additional voluntary payments if it so decides. This is known as the Voluntary Revenue Provision - VRP.
- 2.11 This Council in 2015/16 will have a Capital Financing Requirement in relation to the potential borrowing that will occur as a result of the capital expenditure incurred for the loan to Broadacres Housing Association.
- 2.12 Communities of Local Government (CLG) Regulations have been issued which require the Full Council to approve a **Minimum Revenue Provision (MRP) Statement** in advance of each year. Under guidance issued by CLG, there are four options provided to Councils so each Council can select the most appropriate policy to be adopted, so long as there is a prudent provision. The four options available are listed below. The Council is recommended to approve the following Minimum Revenue Provision Statement:
- 2.13 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:
- **Based on CFR – MRP** will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.
- 2.14 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:
- **Asset Life Method – MRP** will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.
- 2.15 Repayments included in finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2015/16 or in the foreseeable future.
- 2.16 The Capital Financing Requirement for the loan to Broadacres Housing Association will be a maximum of £35,000,000 in 2015/16. In the agreement with Broadacres Housing Association, they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement.

Therefore, if £35,000,000 is loaned to Broadacres in 2015/16, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2019/20 and at regular intervals thereafter.

Core funds and expected investment balances

- 2.17 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances. Working capital balances (Debtors and Creditors) shown in the table are estimated for year end; these may fluctuate during the year. In 2016/17 and 2017/18 it should be noted that if the Council does not borrow £35,000,000 to fund the Broadacres Housing Association loan and instead uses its own core fund resources, then the 'Expected Investments' balances in the table below would be lower.

Year End Resources £000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Fund balances / reserves		16,594,871	16,329,284	16,567,545	16,555,605
Capital receipts		3,068,796	2,538,517	2,793,417	2,711,317
Provisions		-	-	-	-
Other		36,333	132,199	39,038	33,078
Total core funds		19,700,000	19,000,000	19,400,000	19,300,000
Under/over borrowing		-	-	-	-
Expected Investments		19,700,000	19,000,000	19,400,000	19,300,000

Affordability Prudential Indicators

- 2.18 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:
- 2.19 **Actual and estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	-	-	-	-	-

- 2.20 The estimates of financing costs include current commitments and the proposals in this report. The table shows that there is no ratio between the capital cost and net revenue stream because the borrowing which will potentially be undertaken is for the loan to Broadacres Housing Association. Ultimately this will not be a cost to the Council as the agreement between the Council and Broadacres will cover the costs incurred.
- 2.21 **Estimates of the incremental impact of capital investment decisions on Council Tax.** This indicator identifies the revenue costs associated with proposed changes to the three year Capital Programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

2.22 Incremental impact of capital investment decisions on the Band D Council Tax

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	£0.00	£0.00	£0.00	£0.00	£0.00

3.0 TREASURY MANAGEMENT STRATEGY:

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 Current Portfolio Position on Borrowing

3.2.1 The Council's treasury portfolio position at 31 March 2014 with forward projections is summarised below. The table shows the actual external debt (the Treasury Management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. This Council currently is debt free in 2014/15. In 2015/16 if a loan is made to Broadacres Housing Association then the maximum amount of debt that would be borrowed would be £35,000,000. This is reflected in the table below:

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	0	0	35,000,000	35,000,000	35,000,000
Expected change in Debt	0	0	35,000,000	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual debt at 31 March	-	-	35,000,000	35,000,000	35,000,000
The Capital Financing Requirement	-	-	35,000,000	35,000,000	35,000,000
Under / (over) borrowing	-	-	-	-	-

Total investments at 31 March					
investments	23,950,000	19,700,000	19,000,000	19,400,000	19,300,000
Investment change		-4,250,000	-700,000	400,000	-100,000

Net Debt / (Net Investment)	(23,950,000)	(19,700,000)	16,000,000	15,600,000	15,700,000
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3.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.2.3 The Director of Support Services & Deputy Chief Executive (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year 2014/15 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. Prior to 2015/16, the Council was debt free and had no borrowing, however, to give the Council complete flexibility these limits are always set at the beginning of each financial year. In addition to these flexibility requirements in 2015/16 the possibility of borrowing £35,000,000 to fund the loan to Broadacres Housing Association is also included in the operational boundary.

Operational boundary	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	4,000,000	39,000,000	39,000,000	39,000,000
Other long term liabilities	600,000	600,000	600,000	600,000
Total	4,600,000	39,600,000	39,600,000	39,600,000

3.3.2 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has never yet been exercised.
2. The Council is asked to approve the following Authorised Limit. This limit is set to give the Council complete flexibility and also to encompass the maximum amount of borrowing that could occur for the borrowing in connection with the loan to Broadacres Housing Association:

Authorised limit £000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	5,000,000	40,000,000	40,000,000	40,000,000
Other long term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Total	6,000,000	41,000,000	41,000,000	41,000,000

3.4 Prospects for Interest Rates

3.4.1 The Council has appointed Capita Asset Services as its Treasury Advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita Asset Services central interest rate view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

- 3.4.2 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving.
- 3.4.3 The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.
- 3.4.4 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Quarter 2 2014 and 5.0% in Quarter 3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.
- 3.4.5 The current economic outlook and structure of market interest rates and government debt yields have several key Treasury Management implications:
- Greece: the General Election on 25 January 2015 brought to power a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
 - As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of Government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain

elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ Government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.5 Borrowing Strategy for 2015/16

3.5.1 The Council in 2014/15 is debt free, however in 2015/16 a loan to Broadacres would increase the Council's capital expenditure and therefore there may be the requirement to undertake borrowing to support this. The maximum amount of borrowing that would be incurred is £35,000,000. Alternatively, the Council may choose to use some of its surplus funds to fund the loan to Broadacres Housing Association and if this occurred the Council would be maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), will not be fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

3.5.2 If the Council does undertake borrowing then interest rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Governments Public Works Loans Board. For 2015/16 interest rates span between 5 years at 2.2% and 25 or 50 years at 4%. The interest rates trend is to increase across all years as the 2015/16 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2015/16 is set at 3.8%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.

3.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

Any decisions will be reported to the appropriate to Cabinet at the next available opportunity.

Treasury Management Limits on Activity

3.5.3 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:-

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set in place to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

3.5.3 The Council is asked to approve the following treasury indicators and limits in the table below. These limits take into account the potential borrowing of £35,000,000 to fund the loan to Broadacres Housing Association and also provide the flexibility for additional borrowing where there may be a rare occasion when overnight temporary borrowing needs to occur. It should be noted that at this stage options have been left open when borrowing will occur for the loan to Broadacres due to the current volatility in the market.

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	108%	116%	122%
Limits on variable interest rates based on net debt	-8%	-16%	-22%
Limits on Fixed Interest Rates:			
• Debt only	100%	100%	100%
• Investments Only	90%	90%	90%
Limits on Variable Interest Rates			
• Debt only	10%	10%	10%
• Investments Only	50%	50%	50%
Maturity Structure of interest rate borrowing 2014/15			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years to 20 years	0%	100%	
20 years to 30 years	0%	100%	
30 years to 40 years	0%	100%	
40 years to 50 years	0%	100%	