

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (S151 Officer)

Subject: **REVIEW OF ANNUAL TREASURY MANAGEMENT STRATEGY 2017/18**

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 2017/18. The Treasury Management Strategy is influenced by the capital expenditure plans of the Council for 2017/18 and the next 10 years.
- 1.2 Following the collapse of the Icelandic banks in October 2008 and in accordance with the Audit Commission's recommendations in their subsequent report "Risk and Return – English local authorities and the Icelandic banks" it is a requirement that the Council's Annual Treasury Management Strategy should be subject to Member scrutiny and that the scrutiny be fulfilled by the Audit, Governance and Standards Committee. This scrutiny role is now within the Committee's terms of reference.
- 1.3 Attached at Appendix 'A' is the "2017/18 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators" report which was approved by Cabinet at its meeting on 7 February 2017.
- 1.4 Paragraph 4.3 of the Cabinet report summarises the proposed Treasury Management Strategy for 2017/8 as:-
 - The Council's Capital Financing Requirement and the potential need to borrow;
 - The minimum revenue provision policy is defined detaining the minimum revenue payments that are required to be;
 - 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 three exceptions to this policy:

- (a) with counterparties that are backed by the Government – Royal Bank of Scotland, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher.
- (b) With the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty, whichever is the higher
- (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

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. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

- 1.5 The Treasury Management Strategy Statement also refers to Member training, where Members with responsibility for scrutinising Treasury Management have the option to be provided with specific training. Training was given to Members in October 2016 providing them with an overview of Treasury Management in a Local Authority. Further training can be carried out by Council Officers and / or Capita Asset Services - the Council's Treasury Management advisors.

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:-
 - (a) review the Council's Treasury Management Strategy for 2017/18 and make any appropriate recommendations to Cabinet; and
 - (b) consider treasury management training during 2017/18

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers:	None
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Agenda Item 6

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 February 2017

Subject: 2017/18 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 2017/18 to 2026/27, the 2017/18 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's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained the Council can also use borrowing to support the Capital programme. The Financial Strategy which supports the Capital Programme 2017/18 to 2026/27 is being approved at this February 2017 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 2017/18 to 2026/27 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 2017/18 Capital Programme is detailed in this report.
- 1.5 The Treasury Management Strategy Statement includes the Annual Investment Strategy the Minimum Revenue Policy Statement and the Prudential and Treasury indicators. 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 2017/18 to 2026/27
 - (b) the Capital Programme for the coming financial year 2017/18, which is informed by the 10 year Capital Programme
 - (c) the Treasury Management Strategy Statement 2017/18
 - (d) the Minimum Revenue Policy Statement 2017/18
 - (e) the Prudential and Treasury Indicators 2017/18

2.0 10 YEAR CAPITAL PROGRAMME 2017/18 to 2026/27:

2.1 The 10 year Capital Programme 2017/18 to 2026/27 shows capital expenditure of £25,359,352, which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £28,710,558, which leaves a balance of funding of £3,351,206. £984,784 of this reserve funding balance is allocated for a revenue purpose to support Repairs & renewals of the Council's assets, ICT development and development of the economy this leaves £2,366,422 to be used on capital projects in future years. The Financial Strategy supports this 10 year Capital Programme which shows it is affordable, sustainable and prudent over the long term.

2.2 The 10 Year Capital Programme 2017/18 to 2026/27 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	1,076,000
Computer Fund	1,860,995
Capital Receipts Reserve	9,043,647
Economic Development Fund	3,378,710
Borrowing / Surplus Funds	<u>10,000,000</u>
	25,359,352

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3, A4, A5 and A6.

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 a proportion of those in the revenue budget. This practice will protect the repairs budget, 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 through the 10 year strategy because it is envisaged that schemes will emerge from the review of all service areas on an ongoing basis 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 when £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014. Funding remaining to be allocated at quarter 3 2016/17 is £1,219,597.

2.8 **Borrowing / Surplus funds** – Borrowing or surplus funds can be used to support the Capital Programme in accordance with the Treasury Management Strategy Statement. Specifically, on 16 December 2014 Cabinet approved the loan to local Housing Association to assist the local area in increasing housing opportunities for the community and also on 7 July 2015 the loan to the Business Improvement District. Therefore, the Treasury Management Strategy Statement details the maximum amount of borrowing that can occur during 2017/18. There is still the flexibility that surplus funds could contribute to the funding of the loans 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 **2017/18 CAPITAL PROGRAMME BUDGET:**

3.1 The Capital Programme 2017/18 totals £9,554,070 and is funded as follows:

	£
Repairs and Renewals Fund	110,000
Computer Fund	184,270
Capital Receipts Reserve	459,800
Borrowing / Surplus Funds	<u>8,800,000</u>
	9,554,070

3.2 The Capital Programme 2017/18 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.

3.3 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:-

- each scheme contributes towards the attainment of a particular Business Plan target and a number have clear community benefits;
- schemes can 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.

3.4 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 Finance.

3.5 The 10 year Capital Programme and the 2017/18 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.

4.0 2017/18 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2017/18. 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;
- 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.

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.

4.3 The Treasury Management Strategy Statement for 2017/18 reflects the improved stability of the banking sector, 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 2017/18 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow;
- The minimum revenue provision policy is defined determining the minimum revenue payments that are required;
- 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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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. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

- 4.4 The Treasury Management Strategy Statement 2017/18 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.
- 4.5 The Scheme of Delegation and the Role of the S151 Officer (Director of Finance), 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.
- 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.

5.0 LINK TO COUNCIL PRIORITIES:

- 5.1 This report links to the efficient use of Council resources, where the Capital Programme 2016/17 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 RISK ASSESSMENT:

- 6.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2017/18:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2017/18 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.

Risk	Implication	Prob	Imp	Total	Preventative action
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 FINANCIAL IMPLICATIONS:

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

8.0 LEGAL IMPLICATIONS:

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 2017/18 and future years. This report provides detail of the Capital Programme 2017/18 and also includes the requirements for the Treasury Management Strategy Statement.

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.

9.0 EQUALITY/DIVERSITY ISSUES:

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 2017/18 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

10.0 RECOMMENDATIONS:

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

- 1) the 10 year Capital Programme 2017/18 to 2026/27 at £25,359,352 be approved, as detailed in paragraph 2.2 and attached at Annex 'A';
- 2) the Capital Programme 2017/18 at £9,554,070 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; and
- 7) the Scheme of Delegation and role of the S151 Officer attached at Annex 'E' be approved.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Capital Programme 2017/18

10 YEAR CAPITAL PLAN 2017/18 TO 2026/27

ANNEX A1

REPAIRS AND RENEWALS FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(2,439,767)	(2,060,767)	(947,767)	(795,767)	(683,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	
Add: Transfers to / (from) Taxpayers Reserve		1,000,000	0	0	(200,000)	0	0	0	0	0	
	(2,439,767)	(1,060,767)	(947,767)	(795,767)	(883,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	(1,639,767)
EXPENDITURE											
Repairs and Renewals - Revenue	239,000	22,000	22,000	26,000	26,000	26,000	30,000	30,000	30,000	30,000	481,000
Public lighting replacement	46,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	370,000
Air conditioning - Legislative requirement Leisure	20,000	0	0	0	0	0	0	0	0	0	20,000
CHP Unit at Bedale Leisure Centre											0
Purchase of bins and boxes for refuse and recycling	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Civic Centre- Carpet Replacement	0	0	0	0	0	10,000	0	0	0	0	10,000
Civic Centre- Internal Painting	0	5,000	0	0	5,000	0	0	0	0	0	10,000
Gym equipment refresh	24,000	0	24,000	0	24,000	0	24,000	0	0	0	96,000
Pool Tank Tiles Hambleton Leisure Centre	0	0	20,000	0	0	0	0	0	0	0	20,000
Car Parks - Reinstatements	0	0	0	0	0	50,000	0	0	0	0	50,000
TOTAL REPAIRS AND RENEWALS CAPITAL EXP	140,000	91,000	130,000	86,000	115,000	146,000	110,000	86,000	86,000	86,000	1,076,000
BALANCE ON REPAIRS & RENEWALS FUND	(2,060,767)	(947,767)	(795,767)	(683,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	(82,767)	

10 YEAR CAPITAL PLAN 2017/18 TO 2026/27

ANNEX A2

COMPUTER FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(810,884)	(454,719)	(302,719)	(990,889)	(888,889)	(726,889)	(1,574,889)	(1,472,889)	(1,196,889)	(2,046,889)	
Add: Transfers from Council Taxpayers Reserve		0	(1,000,000)	0	0	(1,000,000)		0	(1,000,000)		
	(810,884)	(454,719)	(1,302,719)	(990,889)	(888,889)	(1,726,889)	(1,574,889)	(1,472,889)	(2,196,889)	(2,046,889)	(3,810,884)
EXPENDITURE											
ICT REVENUE COSTS	63,000	0	0	0	0	0	0	0	0	0	63,000
ICT Improvements - 2017/18	293,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,860,995
TOTAL ICT CAPITAL EXPENDITURE	356,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,923,995
BALANCE ON COMPUTER FUND	(454,719)	(302,719)	(990,889)	(888,889)	(726,889)	(1,574,889)	(1,472,889)	(1,196,889)	(2,046,889)	(1,886,889)	

CAPITAL RECIEPTS RESERVE	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(2,330,698)	(1,884,008)	(1,858,794)	(1,829,912)	(1,793,363)	(1,818,149)	(1,330,271)	(1,330,231)	(1,348,531)	(1,367,172)	
Add: Capital Receipts Estimated	(883,000)		0	0	0	0	0	0	0	0	
Add: Capital receipts - sale of bins	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
Add: Estimated Grants (DFG)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	
Add: Estimated Grants (s106)	(335,000)	0	0	0	0	0	0	0	0	0	
Add: Trsf from Council Tax payers Reserve	(1,875,000)	(500,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	
Add: Revenue contrn - One off Fund (Increasd leisure Receipts)	(200,000)										
Add: External Funding for Bedale Leisure Centre Hoist	0	0	0	0	0	0	0	0	0	0	
Add: External Funding for Bedale Public Art	(44,500)	0	0	0	0	0	0	0	0	0	
Add: Revenue contributions for Kerbside bins	(65,957)	(66,286)	(66,618)	(66,951)	(67,286)	(67,622)	(67,960)	(68,300)	(68,641)	0	
Add: Revenue contributions for LED Public Lightning	(13,500)	(13,500)	(16,500)	(13,500)	(13,500)	(16,500)	0	0	0	0	
Total Estimated Capital Receipts	(5,857,655)	(2,573,794)	(2,351,912)	(2,320,363)	(2,284,149)	(2,312,271)	(1,808,231)	(1,808,531)	(1,827,172)	(1,777,172)	(10,360,819)
EXPENDITURE											
Disabled Facilities Grants	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	1,500,000
Purchase of bins for refuse and recycling - New Waste Strategy	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
Public lighting energy reductions	0	0	0	0	0	0	0	0	0	0	0
Public lighting LED Lights	0	0	0	0	0	0	0	0	0	0	0
Car Park Restatements	50,000	0	50,000	0	0	262,000	0	0	0	0	362,000
Bedale Gateway Car Park	530,380	0	0	0	0	0	0	0	0	0	530,380
Civic Centre- Window Replacements	0	0	0	0	0	0	10,000	0	0	0	10,000
Adoption of Roads - Leeming Bar	0	0	0	0	0	0	0	0	0	0	0
Adoptions - Electric Bollards - Thirsk & Northallerton	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Digital Transaction Software	0	0	0	0	0	0	0	0	0	0	0
Car Parks - P&D Machines Replacements	0	0	0	0	0	140,000	0	0	0	0	140,000
Bedale North End Cobbles	0	0	0	0	0	120,000	0	0	0	0	120,000
Hambleton Leisure Centre Wave Machine	30,000	0	0	0	0	0	0	0	0	0	30,000
Civic Centre - Access Card Reader System	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Toilet Refurbishments	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Disabled Access Doors and Ramp	0	0	0	0	0	0	0	0	0	0	0
ICT Server Room Civic Centre & Springboard	0	0	0	0	0	0	0	0	0	0	0
Bedale Cycle Scheme	392,035	0	0	0	0	0	0	0	0	0	392,035
District Council Boundary Signs	0	10,000	0	0	0	0	0	0	0	0	10,000
Central Depot - Additional Parking	0	0	0	0	0	0	0	0	0	0	0
Leisure Centre Automatic Doors	30,000	0	0	0	0	0	0	0	0	0	30,000
Waste and Street Scene - Telematics	12,050	0	0	0	0	0	0	0	0	0	12,050
Waste and Street Scene - Training Room	0	0	0	0	0	0	0	0	0	0	0
Hambleton Leisure Centre Improvement Scheme	1,950,005	100,000	0	0	0	0	0	0	0	0	2,050,005
Hambleton All Weather Pitch Refurbishment	0	0	0	0	0	0	0	0	0	0	0
Hambleton Leisure Centre - Fire Alarm System	15,217	0	0	0	0	0	0	0	0	0	15,217
Hambleton Leisure Centre - External Render	8,000	0	0	0	6,000	0	0	0	0	0	14,000
Hambleton Leisure Centre - Pool Balustrades	15,000	0	0	0	0	0	0	0	0	0	15,000
Hambleton Leisure Centre- Pool Changing Village	175,000	0	0	0	0	0	0	0	0	0	175,000
Bedale Leisure Centre - Improvement Scheme	0	0	0	0	0	0	0	0	0	0	0
Stokesley Leisure Centre improvement scheme	0	0	0	0	0	0	0	0	0	0	0
Forum - Capital Repairs	41,300	0	0	24,000	0	0	0	0	0	0	65,300
CCTV Camera Replacement Programme	5,360	0	0	0	0	0	0	0	0	0	5,360
Workspaces Air Con Refurbishments	0	0	6,000	0	0	0	0	0	0	0	6,000
Car Park Creation Leeming Bar LBFEC	0	0	0	0	0	0	0	0	0	0	0
Hambleton LC - Cold Water storage Tank	8,000	0	0	0	0	0	0	0	0	0	8,000
Stokesley LC - Corridor to viewing area, underfloor pipework	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Health and safety aspects	18,000	0	0	0	0	0	0	0	0	0	18,000
Workspaces - Roller Shutter Doors	0	0	0	8,000	0	0	8,000	0	0	0	16,000
Workspace - Lift Works (LOLER)	0	0	6,000	0	0	0	0	0	0	0	6,000
Central and Stokesley Depot - Welfare Facilities improvements	0	0	0	0	0	0	0	0	0	0	0
Central Depot - HGV Full Roof Replacement	0	45,000	0	0	0	0	0	0	0	0	45,000
Civic Centre: Replace Computer Room 1&2 Air conditioning unit	0	0	0	0	0	0	0	0	0	0	0
Civic Centre: UPS and Fire Suppression replacement scheme	0	0	0	0	0	0	0	0	0	0	0
Central Depot - Access Road resurfacing	0	0	0	35,000	0	0	0	0	0	0	35,000
Car Parks - upgrading Pay & Display Machines	0	0	0	0	0	0	0	0	0	0	0
Hambleton LC - Sauna replacement	12,000	0	0	0	0	0	0	0	0	0	12,000
Stokesley LC - Sauna replacement	0	0	0	0	0	0	0	0	0	0	0
Thirsk All Weather Pitch - Refurbishment of showers	0	0	0	0	0	0	0	0	0	0	0

HLC - Rebound boards (linked to floor being done)	18,000	0	0	0	0	0	0	0	0	0	18,000
HLC - Sports hall sprung floor	60,000	0	0	0	0	0	0	0	0	0	60,000
Civic Centre - Food Lab	0	0	0	0	0	0	0	0	0	0	0
Springboard Car Park - Resurface with Tarmac	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Double Glazed window replacement scheme	12,000	0	0	0	0	0	0	0	0	0	12,000
Hambleton LC - Air handling energy saving rotor replacement	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Refurbishment of kitchenettes	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Dormers	20,000	0	0	0	0	0	0	0	0	0	20,000
Civic Centre - External Woodwork replacement scheme Stairwells	10,000	0	0	0	0	0	0	0	0	0	10,000
Stokesley LC - re-design of reception area	15,000	0	0	0	0	0	0	0	0	0	15,000
Civic Centre Toilets Part 2	32,000	0	0	0	0	0	0	0	0	0	32,000
Stokesley LC - Menerga Air Handling Unit	0	0	0	0	0	0	0	0	0	0	0
St Marys Closed Churchyard - Boundary Wall repairs	10,000	0	0	0	0	0	0	0	0	0	10,000
Bedale Sweeper Shed	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - sub circuit distribution	0	0	0	0	0	0	0	0	0	0	0
Workspaces Air Con Refurbishments	0	0	0	0	0	0	0	0	0	0	0
Sandbag Storage Scheme	0	0	0	0	0	0	0	0	0	0	0
Bedale Leisure Centre Hoist	0	0	0	0	0	0	0	0	0	0	0
PC Screens - Planning	0	0	0	0	0	0	0	0	0	0	0
Bid Software - Northgate	0	0	0	0	0	0	0	0	0	0	0
Bedale Public Art	44,500										44,500
Depot - Roller Shutter Doors											0
HLC - Main Office Heating & Ventilation	9,000	0	0	0	0	0	0	0	0	0	9,000
HLC - External Glazing	8,000	0	0	0	0	0	0	0	0	0	8,000
SLC - Air Handling Unit	12,000	0	0	0	0	0	0	0	0	0	12,000
SLC - Trend Control Systems	6,800	0	0	0	0	0	0	0	0	0	6,800
BLC - Trend Control Systems	6,000	0	0	0	0	0	0	0	0	0	6,000
TLC - Stoarge (Plant Room)	8,000	0	0	0	0	0	0	0	0	0	8,000
BLC - Gas Boiler Refurbishment	24,000										24,000
LED Lantern Replacement Scheme	42,500	0	0	0	0	0	0	0	0	0	42,500
HLC - Sports Hall Lighting	10,000	0	0	0	0	0	0	0	0	0	10,000
Northallerton Depot Fire Alarm System	7,500	0	0	0	0	0	0	0	0	0	7,500
Northallerton Depot External Works	8,000	0	0	0	0	0	0	0	0	0	8,000
Workspace Investment Scheme	158,000	0	0	0	0	0	0	0	0	0	158,000
ADDITIONAL SCHEMES	0	400,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	2,800,000
TOTAL CAPITAL RECEIPTS EXPENDITURE	3,973,647	715,000	522,000	527,000	466,000	982,000	478,000	460,000	460,000	460,000	9,043,647
BALANCE ON Capital receipts reserve	(1,884,008)	(1,858,794)	(1,829,912)	(1,793,363)	(1,818,149)	(1,330,271)	(1,330,231)	(1,348,531)	(1,367,172)	(1,317,172)	(1,317,172)

ECONOMIC DEVELOPMENT FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(1,889,088)	(1,052,241)	(760,784)	(499,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	
Add: Estimated Capital Receipts from sale of prison site				(2,200,000)							
Add: Estimated returned of borrowed funds from the BID	(10,000)	0	0	0	0						
	(1,899,088)	(1,052,241)	(760,784)	(2,699,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	(4,099,088)
EXPENDITURE											
Economic Development Revenue Expenditure	368,037	51,357	21,390	0	0						440,784
Economic Development Capital Expenditure	478,810	240,100	240,100	680,100	679,600	440,000	420,000	200,000			3,378,710
TOTAL ECONOMIC DEVELOPMENT FUND EXPENDITURE	846,847	291,457	261,490	680,100	679,600	440,000	420,000	200,000	0	0	3,819,494
BALANCE ON ECONOMIC DEVELOPMENT FUND	(1,052,241)	(760,784)	(499,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	(279,594)	(279,594)

BORROWING / SURPLUS FUNDS	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Add: Borrowing / Surplus Funds	(8,800,000)	0	0	0	0	0	0	0	0	0	(8,800,000)
Add: Borrowing / Surplus Funds	0	0	0	0	0	0	0	0	0	0	0
EXPENDITURE											
Loan to Housing Association	8,800,000	0	0	0	0	0	0	0	0	0	8,800,000
BID Project	1,200,000	0	0	0	0	0	0	0	0	0	1,200,000
BALANCE ON BORROWING / SURPLUS FUNDS	1,200,000	0	0	0	0	0	0	0	0	0	1,200,000

TOTAL CAPITAL PROGRAMME	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
REPAIRS AND RENEWALS FUND	140,000	91,000	130,000	86,000	115,000	146,000	110,000	86,000	86,000	86,000	1,076,000
COMPUTER FUND	293,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,860,995
CAPITAL RECIEPTS RESERVE	3,973,647	715,000	522,000	527,000	466,000	982,000	478,000	460,000	460,000	460,000	9,043,647
ECONOMIC DEVELOPMENT FUND	478,810	240,100	240,100	680,100	679,600	440,000	420,000	200,000	0	0	3,378,710
BORROWING SURPLUS FUNDS	10,000,000	0	0	0	0	0	0	0	0	0	10,000,000
BALANCE ON BORROWING / SURPLUS FUNDS	14,885,622	1,198,100	1,203,930	1,395,100	1,422,600	1,720,000	1,110,000	1,022,000	696,000	706,000	25,359,352

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Phillips MJ	Leisure & Environment Purchase of bins and boxes for refuse and recycling	50,000		50,000	Ongoing
Cllr Fortune PS	Gym Equipment Refresh	24,000		24,000	Mar-18
Cllr Knapton JI	Economy, Planning & Housing Public lighting replacement	36,000		36,000	Mar-18
Repairs & Renewals Fund Capital Programme 2017/18		110,000	0	110,000	

Cabinet Member/ Responsible Officer	Computer Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Knapton JI	Finance & Resources ICT Improvements	184,270	0	184,270	Mar-18
Computer Fund Capital Programme 2017/18		184,270	0	184,270	

Cabinet Member/ Responsible Officer	Capital Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Fortune PS	Leisure & Environment Hambleton Leisure Centre - Main Office Heating & Ventilation	9,000		9,000	Jul-17
PS	Hambleton Leisure Centre - External Glazing	8,000		8,000	Sep-17
PS	Hambleton Leisure Centre - Sports Hall Lighting	10,000		10,000	Dec-17
PS	Stokesley Leisure Centre - Air Handling Unit	12,000		12,000	Oct-17
PS	Stokesley Leisure Centre - Trend Control Systems	6,800		6,800	Oct-17
PS	Bedale Leisure Centre - Trend Control Systems	6,000		6,000	Oct-17
PS	Bedale Leisure Centre - Gas Boiler Refurbishment	24,000		24,000	Oct-17
PS	Thirsk Leisure Centre - Storage (Plant Room)	8,000		8,000	Mar-18
Cllr Phillips MJ	Purchase of bins and boxes for refuse and recycling	10,000	10,000	0	Ongoing
MJ	Northallerton Depot Fire Alarm System	7,500		7,500	Jun-17
MJ	Northallerton Depot External Works	8,000		8,000	Oct-17
Cllr Phillips MJ	Economy, Planning & Housing Disabled Facilities Grant	150,000	100,000	50,000	Mar-18
Cllr Fortune PS	Evolution Car Park Extension	158,000		158,000	Mar-18
Cllr Knapton JI	LED Lantern Replacement Scheme	42,500		42,500	Mar-19
Capital Fund Capital Programme 2017/18		459,800	110,000	349,800	

Cabinet Member/ Responsible Officer	Borrowing / Surplus Funds				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Knapton JI	Finance & Resources Loan to Housing Association	8,800,000		8,800,000	Mar-19
Borrowing / Surplus Funds Programme 2017/18		8,800,000	0	8,800,000	

Cabinet Member/ Responsible Officer	Total Capital Programme 2017/18				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Phillips	Leisure & Environment	183,300	10,000	173,300	
Cllr Fortune	Economy, Planning & Housing	386,500	100,000	286,500	
Cllr Knapton	Finance & Resources	8,984,270	0	8,984,270	
Total Capital Programme 2016/17		9,554,070	110,000	9,444,070	

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TREASURY MANAGEMENT STRATEGY STATEMENT -
MINIMUM REVENUE POSITION STRATEGY and
ANNUAL INVESTMENT STRATEGY 2017/18

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 (MRP) (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 and actual treasury operations compared to the estimates within the strategy.

Scrutiny

- 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 Audit, Governance and Standards Committee.

1.3 Treasury Management Strategy for 2017/18

- 1.3.1 The strategy for 2017/18 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, Local Government Minimum Revenue Provision Guidance and Communities, Local Government Investment guidance.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20:

- 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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	13,951,716	19,187,330	14,885,622	1,198,100	1,203,930

- 2.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as Private Finance Initiatives and leasing arrangements which already include borrowing instruments. The Council has no Private Finance Initiatives or leases.

- 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 borrowing need. In 2017/18, borrowing may occur to support the Capital programme, mainly due to the loan to the local Housing Association.

Capital Expenditure £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	13,951,716	19,187,330	14,885,622	1,198,100	1,203,930
Financed by:					
Capital receipts	1,688,505	999,445	1,939,690	35,214	38,882
Capital grants	318,265	392,539	479,500	100,000	100,000
Capital reserves	1,944,946	1,529,717	3,946,875	743,000	741,830
Revenue	0	65,629	79,457	79,786	83,118
Net financing need for the year	10,000,000	17,400,000	8,800,000	0	0

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. 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 2016/17, due to the loan to the local Housing Association and the loan to the Business Improvement District, the CFR is required as this is a prudent approach to the need to borrow. This also provides the Council with the flexibility to use borrowing to support the capital programme if it chooses to do so but still allows the use of surplus funds. If external borrowing is taken, consideration will be given to the Treasury Management environment to ensure that the best option is achieved in relation to interest rates in the short and long term.
- 2.8 The CFR also includes any other long term liabilities (e.g. Private Finance Initiative 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 Private Finance Initiative schemes or Finance Leases.
- 2.9 The Council is asked to approve the CFR projections below:-

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – non housing	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
CFR - housing	0	0	0	0	
Total CFR	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
Movement in CFR	10,000,000	17,400,000	8,800,000	0	0

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Net financing need for the year (above)	10,000,000	17,400,000	8,800,000	0	0
Less MRP and other financing movements	0	0	0	0	0
Movement in CFR	10,000,000	17,400,000	8,800,000	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 an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement) through a revenue charge known as the Minimum Revenue Provision – MRP. The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision - VRP.
- 2.11 This Council in 2017/8 will have a Capital Financing Requirement of £36,200,000 to support the total capital programme, however borrowing is only likely to occur where insufficient surplus funds are available.
- 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. A variety of options are provided to councils, so long as there is a prudent provision. 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 annual Private Finance Initiative scheme or finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2017/18 or in the foreseeable future.
- 2.16 The Capital Financing Requirement for the loan to the local Housing Association will be a maximum of £35,000,000 in 2017/18 and future years. The agreement with the local Housing Association states 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 a total of £35,000,000 is loaned to the local Housing Association by the end of 2017/18, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2020/21 and at regular intervals thereafter. The Capital Financing Requirement for the Business Improvement District will be a maximum of £1,200,000, making the total £36,200,000, as with the loan to the Local Housing Association, the loan to the Business Improvement District of £1,200,000 also sets

aside receipts received to repay the borrowing that has been incurred on an annual basis for the next 5 years.

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 2017/18, 2018/19 and 2019/20 it should be noted that if the Council does not borrow £35,000,000 to fund the local Housing Association loan and instead uses its own core fund resources, then the 'Expected Investments' balances in the table below would be lower. The Council will run its cash close to zero, therefore reducing its external borrowing costs.

Year End Resources £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	14,329,041	11,744,311	7,633,641	7,523,118	7,944,387
Capital receipts	2,438,256	2,665,698	1,884,008	1,858,794	1,829,912
Provisions	-	-	-	-	-
Other	2,977,703	2,789,991	1,992,351	1,998,088	2,195,701
Total core funds	19,745,000	17,200,000	11,510,000	11,380,000	11,970,000
Under/(over) borrowing	10,000,000	17,200,000	11,510,000	11,380,000	11,970,000
Expected investments	9,745,000	-	-	-	-

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 **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.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	0	0	0	0	0

- 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 the local Housing Association. Ultimately this will not be a cost to the Council as the agreement between the Council and the local Housing Association will cover the costs incurred.
- 2.21 **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

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	£0.00	£0.00	£0.00	£0.00	£0.00

- 2.23 The table indicates no revenue costs associated with capital investment decisions because it is not anticipated that any borrowing will be taken and surplus funds will be used to support expenditure. The potential borrowing that will occur will be not direct cost to the council as the agreement between the Council and the local Housing Association will cover the costs incurred.

3.0 **BORROWING:**

- 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**

- 3.2.1 The Council's treasury portfolio position at 31 March 2016 with forward projections are 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. At the end of 2015/16 the Council was debt free. In 2016/17 borrowing is estimated to occur to support the capital programme as described in section 2 above. The estimated position for 2017/18 and future years is also reflected in the table below:

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	0	0	10,200,000	24,690,000	24,820,000
Expected change in Debt	0	10,200,000	14,490,000	130,000	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	0	10,200,000	24,690,000	24,820,000	24,820,000
The Capital Financing Requirement	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
Under / (over) borrowing	10,000,000	17,200,000	11,510,000	11,380,000	11,380,000

Total investments at 31 March					
Investments	9,745,000	0	0	0	0
Investment change	0	-9,745,000	0	0	0

Net Debt / (Net Investment)	-9,745,000	9,745,000	0	0	0
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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 2017/18 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 Finance (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year 2016/17 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 2016/17, 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.

Operational boundary	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	6,200,000	39,000,000	39,000,000	39,000,000
Other long term liabilities	0	600,000	600,000	600,000
Total	6,200,000	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 capital programme:

Authorised limit £000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	40,000,000	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	41,000,000	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
Dec 2016	0.25	1.60	2.90	2.70
Mar 2017	0.25	1.60	2.90	2.70
Jun 2017	0.25	1.60	2.90	2.70
Sep 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
Mar 2018	0.25	1.70	3.00	2.80
Jun 2018	0.25	1.70	3.00	2.80
Sep 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
Mar 2019	0.25	1.80	3.20	3.00
Jun 2019	0.50	1.90	3.20	3.00
Sep 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
Mar 2020	0.75	2.00	3.40	3.20

- 3.4.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
- 3.4.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 3.4.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a

rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

- 3.4.5 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of the Federal funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.5 Borrowing Strategy

- 3.5.1 The Council in 2015/16 the Council was debt free, however in 2016/17 it is likely that borrowing will occur in relation to the capital programme, specifically the loan to the local housing association and the loan to the Business Improvement District. The maximum amount of borrowing as stated above in section 2 in line with the Capital financing requirement is £35,000,000. Alternatively, the Council may choose to use some of its surplus funds rather than borrow if this occurred the Council would be maintaining an under-borrowed position. This means that the capital borrowing needed (the Capital Financing Requirement), will not be fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow will be 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 2017/18 interest rates span between 5 years at 1.70%, 25 at 3.0% or 50 years at 2.80%. The interest rates trend is to increase slightly across all years as the 2017/18 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2017/18 is set at 3.0%. 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 2017/18 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase 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 to support the capital programme as previously described in section 2 above and also provide the flexibility for additional borrowing when overnight temporary borrowing needs to occur. It should be noted that at this stage options have been left open when borrowing will occur due to the current volatility in the market.

	2016/17	2017/18	2018/19
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	107	104	105
Limits on variable interest rates based on net debt	-7	-4	-5
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%	20%	
40 years to 50 years	0%	20%	

3.6 Policy on Borrowing in Advance of Need

- 3.6.1 It is not anticipated therefore that there will be a need to borrow in advance of need during 2017/18. If the Council does borrow in advance of need it will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 3.6.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the quarterly, mid-year or annual reporting mechanism.

3.7 Debt Rescheduling

- 3.7.1 It is not anticipated that in 2017/18 that debt rescheduling will occur. However, in order to cover all possibilities in the Treasury Management Strategy Statement it should be noted that short term borrowing rates will be considerably cheaper than longer term fixed interest rates, therefore, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 3.7.2 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 3.7.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 3.7.4 All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

3.8 Municipal Bond Agency

- 3.8.1 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities sometime in the future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority could therefore potentially make use of this new source of borrowing as and when appropriate to fund all or part of the borrowing required for the two previously mentioned schemes.

3.9 Annual Investment Strategy

3.9.1 Investment Policy –

- 3.9.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

- 3.9.10 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term Ratings.

- 3.9.11 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

- 3.9.12 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- 3.9.13 Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

- 3.9.15 With regards to counterparty limits and the amount of surplus funds to be placed with any one counterparty or group of counterparties, specific advice has been taken from the Council's Treasury Management Advisors (Capital Asset Services) due to the difficulty in placing surplus funds in the current economic environment. Therefore the Counterparty limits are detailed as follows:

- **Individual Limits** – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are three exceptions to this policy:
 - (a) with counterparties that are backed by the Government – Royal Bank of Scotland, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher.
 - (b) with the Council's own bank - Lloyds - and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty whichever is the higher
 - (c) 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 2017/18, 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. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

3.10 Creditworthiness policy

3.10.1 This Council applies the creditworthiness service provided by Capita Asset Services – the Council's Treasury Management Advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

3.10.2 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

3.10.3 The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings and using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

3.10.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

- 3.10.5 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.
- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 3.10.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

3.11 Country Limits

- 3.11.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent), other than the UK where the Council has set no limit. The list of countries that qualify using this AAA credit criteria, as at the date of this report, are shown in Annex C2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- 3.11.2 The UK sovereign rating is currently AA and following advice from Capita Asset Services, the Council's Treasury Management Advisors, and the Council will still operate with UK counterparties.
- 3.11.3 The Council has determined that, other than the United Kingdom where no limit will apply, a maximum of 30% of total investments or £3.0m whichever is the lower will be invested in a single institution of a AAA sovereign rated country
- 3.11.4 In addition, this policy restricts the total of investments in foreign countries to 40% of the total investments.

3.12 Investment Strategy

- 3.12.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 3.12.2 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.25% until Quarter 2 2019 and not rise above 0.75% by Quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:
- 2016/2017 0.25%
 - 2017/2018 0.25%
 - 2018/2019 0.25%
 - 2019/2020 0.50%
- 3.12.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next seven years are as follows:
- 2016/17 0.25%
 - 2017/18 0.25%
 - 2018/19 0.25%

- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%
- 2023/24 1.75%
- Later years 2.75%

3.12.4 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace

3.12.5 **Investment Treasury Indicator and Limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

3.12.6 The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£000	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£1,000,000	£1,000,000	£1,000,000

3.12.7 For its cash flow generated balances, the Council will seek to utilise its Business Reserve Instant Access and Notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

3.13 **Investment Risk Benchmarking** – The Council is a member of Capital Asset Services Treasury Management Benchmarking Club to assist in the measuring of Treasury Management performance which enables comparison with other Council's for risk and return.

3.14 **End of year investment report** - At the end of the 2017/18 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.1 **Policy on the Use of External Service Providers** – the Council uses Capital Asset services as its external Treasury Management advisors. The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It is also recognised that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

4.2 **Member Training** – Members with responsibility for Treasury Management will be provided with training in Treasury management. This especially applies to Members responsible for scrutiny. During 2016/17 Audit, Governance & Standards Committee received training providing an overview of treasury management following their meeting in October 2016. Training can be carried out by Council Officers and / or Capita Asset Services - the Council's Treasury Management advisors. The training needs of Treasury Management officers are also periodically reviewed.

TREASURY MANAGEMENT PRACTICE – TMP1
CREDIT AND COUNTERPARTY RISK MANAGEMENT
- SPECIFIED AND NON-SPECIFIED INVESTMENTS AND LIMITS

1.0 SPECIFIED INVESTMENTS:

- 1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

2.0 NON-SPECIFIED INVESTMENTS:

- 2.1 These are any investments which do not meet the Specified Investment criteria. A maximum of 80% will be held in aggregate in non-specified investment

3.0 INVESTMENT INSTRUMENTS:

- 3.1 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.
- 3.2 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

A) – SPECIFIED

<i>Institution / Counterparty</i>	<i>Minimum 'High' Credit Criteria</i>	<i>Use</i>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Coded: Orange on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house
UK Part nationalised banks	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers

Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Long-term AAA, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Collateralised deposit	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies	F Coded: Orange on Capital Asset Services' Matrix / Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA or equivalent rating from Standard& Poors and Moodys	In-house and Fund Mangers
UK Government Gilts	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Coded: Orange on Capital Asset Services' Matrix / Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK Government	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK Government)	Coded: Orange on Capital Asset Services' Matrix / Sovereign rating	In-house buy and hold and Fund Managers
Treasury Bills	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	Fund Managers

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
2. Money Market Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
3. Enhanced cash funds	Short-term F1, Long-term AAA	In-house and Fund Managers
4. Bond Funds	Long-term AAA	In-house and Fund Managers
5. Gilt Funds	Long-term AAA	In-house and Fund Managers
6. Property Funds	Long-term AAA	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	100%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house buy and hold and Fund Managers	30%	1 Year

Commercial paper issuance covered by a specific UK Government explicit guarantee	UK Sovereign rating	In-house and Fund Managers	30%	1 Year
Commercial paper other	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	30%	1 Year
Corporate Bonds	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	1 Year
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers	30%	1 Year
Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Property fund: the use of these investments would constitute capital expenditure	--	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure

2. Maturities in excess of 1 year

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	30%	> 1 year
Term deposits – banks and building societies	Coded: Purple (2yrs)) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house	30%	> 1 year
Certificates of deposits issued by banks and building societies covered by UK explicit Government guarantee	UK Sovereign	In house and Fund Managers	30%	> 1 year
Certificates of deposits issued by banks and building societies	Coded: Purple(2yrs) on Capital Asset Services' Matrix / Short-term F1+, Long-term AA-	In house and Fund Managers	30%	> 1 year
UK Government Gilts	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year
Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	30%	> 1 year
Sovereign bond issues (i.e. other than the UK Government)	Long term AAA	In-house and Fund Managers	30%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Enhanced Cash Money Market Funds (Credit score of 1.25)	Coded: Dark Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year

2. Enhanced Cash Money Market Funds (Credit score of 1.5)	Coded: Light Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year
3. Bond Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year
4. Gilt Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 16 December 2016

Capita Asset Services has advised that Councils should only use approved counterparties from countries with a minimum sovereign credit rating determined by the Council. This Council has determined that it will only use those countries with the sovereign rating of AAA other than the UK where the Council has set no limit. This list will be monitored at least weekly (and for information purposes only, includes other sovereign ratings)

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qata
- UK

AA-

- Belgium

**THE TREASURY MANAGEMENT POLICY STATEMENT & CLAUSES TO BE FORMALLY
ADOPTED**

Clauses to be formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
 - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its Treasury Management activities;
 - suitable Treasury Management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. Full Council) will receive reports on its Treasury Management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance (S151 Officer), who will act in accordance with the organisation's policy statement and TMPs.
4. This organisation nominates Audit, Governance and Standards Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

The Treasury Management Policy Statement

This organisation defines its Treasury Management activities as:

1. The management of the organisation'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.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Cabinet

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices (recommendations to Council)
- budget consideration and approval (recommendations to Council)
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- receiving annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities

(iii) Audit, Governance and Standards Committee

- reviewing and scrutinising the treasury management policy and procedures and making recommendations to Cabinet.
- receiving and scrutinising annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities

(iv) Director of Finance (Section 151 Officer)

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the Council to the Director of Finance who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers