Doncaster
Metropolitan Borough Council

14th February 2017

To the Chair and Members of the
CABINET

THE TREASURY MANAGEMENT STRATEGY 2017/18 – 2020/21.

Relevant Cabinet Member(s)	**Wards Affected**	**Key Decision**
Mayor Jones	All	

EXECUTIVE SUMMARY

1. This report details the strategy for management of the Council finances and provides a framework for the operation of the treasury management function within the Council. Treasury management makes sure that sufficient cash is available to meet service delivery in line with the approved Capital and Revenue Budgets. Key prudential indicators are contained in the body of the report with further detail in **Appendix A**. The key messages are:

    a. Borrowing – this will increase during the period covered by this report but the Council will remain under-borrowed against its borrowing requirement to avoid the higher cost of carrying debt. As the borrowing rates are forecast to only rise gently over the next 4 years, the primary borrowing strategy for new and replacement debt will be to take cheaper short term loans to maximise interest savings over the period of the report. The borrowing strategy is detailed in **paragraphs 23 – 58**.

    b. Investments – securing the return of investment funds remains paramount when selecting counterparties and the strategy reflects this. The Investment Strategy will continue to manage the balances available and support cash flow requirements. Following ongoing benchmarking work we have identified ways to reduce the risk profile of our investments and at the same time increase its potential yield. The Investment Strategy is outlined in **paragraphs 59 – 78**.

    c. A low risk policy has been established to protect the Council from losses caused by financial institutions failing to repay investments when due .This policy allows the Council to spread the risk amongst a number of approved lenders, and financial instruments, covered in detail in **paragraphs 79 – 90**.

2. The Council has to approve the local policy for approach to debt repayment (Minimum Revenue Provision – MRP) which is detailed in **Appendix B**.

EXEMPT REPORT

3. Not Applicable.

RECOMMENDATIONS

4. Cabinet is asked to recommend to Council to approve the Treasury Management Strategy 2017/18 – 2020/21 report and the Prudential Indicators included.

5. Cabinet is asked to recommend to Council to approve the Minimum Revenue Provision (MRP) policy as set out in **paragraphs 21 - 22** (details in **Appendix B**).

6. Cabinet is asked to note the contents of the attached Treasury Management Annual review for 2015-16. **Appendix F**.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

7. This Strategy ensures that the Council's Capital Programme is affordable and takes advantage of historically low short term interest rates to deliver savings for the Council. By ensuring that the treasury management function is effective we can ensure that the right resources are available at the right time to enable the delivery of services.

BACKGROUND

8. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function 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 financial institutions or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

9. The second main function of treasury management is the funding of the Council's Capital Programme. The Capital Programme provides a guide to the borrowing need of the Council and 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.

10. The Chartered Institute of Public Finance and Accounting (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".

11. For the Council to produce a strategy which is compliant with the statutory guidelines, a number of acts and guidance have to be taken into account. This strategy complies with all such guidance which is referred to in the **Background Papers** listed at the end of this report.

12. The suggested strategy for 2017/18 – 2020/21 for treasury management is based upon the Council's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, "Capita Asset Services, Treasury Solutions". The strategy covers two main areas:

Capital Issues

a) the Capital Programme and the prudential indicators;

b) the Minimum Revenue Provision (MRP) policy.

Treasury Management Issues

a) the current treasury position;

b) treasury indicators which limit the treasury risk and activities of the Council;

c) prospects for interest rates;

d) the borrowing strategy;

e) policy on borrowing in advance of need;

f) debt rescheduling;

g) the investment strategy;

h) creditworthiness policy; and

i) policy on use of external service providers.

13. These elements cover the requirements of the Local Government Act 2003, CIPFA Prudential Code, CLG MRP guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

The Capital Programme Prudential Indicators 2017/18 – 2020/21

14. The Council's Capital Programme is one of the key drivers of treasury management activity. The Prudential Indicators are designed to assist members' overview and demonstrate that the Capital Programme is affordable.

Capital Expenditure

15. The first prudential indicator is the Council's Capital Programme expenditure. It includes existing expenditure commitments, and those included in the 2017/18-2020/21 budget cycle. The full table is detailed in **Appendix A**, (Indicators 1 and 2). Borrowing is part of the package of resources available in each financial year to meet the additional financing requirement.

<u>**Annual borrowing requirements to fund the Capital Programme.**</u>

	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
	22.261	8.189	27.414	14.048	14.048	12.931

The Council's Total Capital Financing Requirement (CFR)

16. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not been fully funded. It is a measure of the Council's underlying borrowing need.

17. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

Capital Financing Requirement.

	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR GF	251.545	253.366	273.067	280.994	288.887	295.613
CFR HRA	264.297	265.089	267.069	267.069	267.069	267.069
Total CFR	515.842	518.455	540.136	548.063	555.956	562.681
Movement in CFR	13.549	2.613	21.681	7.927	7.893	6.726

18. The Council is forecast to have borrowed £444.096m as at 31/03/17 against a CFR (borrowing requirement) of £518.455m which means that the Council is currently forecast to be under borrowed (see paragraphs 35 - 37) by £74.359m. This minimises interest costs, but may not be sustainable long term.

19. Unless new resources are identified, funding the Capital Programme from balances will decrease investment balances and hence reduce investment income levels, but the loss, is currently, more than offset by the interest savings generated by not taking on the full borrowing requirement.

Affordability Prudential Indicators

20. The previous sections cover the overall capital and control of borrowing prudential indicators, but within the overall framework prudential indicators confirm that the Capital Programme is affordable. These are in **Appendix A** Indicators (6 and 7) and show that the cost of capital as a percentage of resources for General Fund (GF) is estimated to be 6.15% (5.78% in 2016/17) and for the Housing Revenue Account (HRA) 16.05% (15.86% in 2016/17). The indicative impact of financing the Capital Programme, on Council Tax band D properties in 2017/18 is £7.19. The impact on housing rents for 2016/17 is £1.32. Further details can be seen in **Appendix A** Indicators (8 and 9). These are indicative figures only and do not impact on Council Tax and Rents as savings or additional income have been identified within the budget to cover these costs. The Council's funding requirement and all the costs of borrowing to support the Capital Programme are contained within the Council's Capital Budget 2017/18 -2020/21, also on this agenda.

The Minimum Revenue Provision (MRP)

21. The Council is required by statute to charge MRP to the General Fund Revenue Account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

22. The Council's MRP policy is detailed at **Appendix B**. The selected methods are those which are most beneficial in each case and comply with Department for Communities and Local Government (DCLG) regulations.

Borrowing Strategy

23. Effective treasury management makes sure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service activity in line with the Capital Programme. This will involve both the organisation of the cash flow and, where capital plans require, the arrangement of borrowing

facilities. Total borrowing at the beginning of 2017/18 is forecast to be £444.096m with an additional estimated borrowing in year of £27.414m re Capital Programme and £17m to replace loans expiring during the year. It is planned that all the loans expiring will be re-borrowed unless additional resources become available. The Council also has £39m of loans, which potentially, we could be asked to repay during the financial year. However, based on the current and forecast levels of interest rates this risk is considered very low and replacement of the loans has not been included within this strategy. The Council's current Loans and Investment portfolios are shown in **Appendix C**.

24. The borrowing strategy is a continuation of the recent successful strategy that has generated large interest savings. The savings are generated in two ways, being under borrowed (see paragraphs 35 - 37 below) and borrowing short term (see paragraph 38 - 39). As interest rates are forecast to increase gently over the term of this strategy we propose to continue to borrow short term rather than lock into the historically low long term interest rates. Where it is considered prudent to do so borrowing for specific capital schemes may be taken over the same term as the actual life of the scheme.

25. The strategy is forecast to deliver £2.23m savings, further details are provided in paragraph 101.

26. The savings, which are very sensitive to a movement in interest rates, assume that the under borrowing will continue. There remains risks associated with the under borrowing, but these will probably be eroded over time through the application of MRP.

27. The strategy delays some borrowing as long as possible to generate interest saving. For example at todays interest rates, if we were to borrow the £74.359m (under borrowed amount) from the Public Works Loan Board (PWLB) over 5 years interest would cost £1.1m per annum and over 25 years to 50 years it would cost £2.134m per annum.

28. It is normally prudent to borrow long term to support the Capital Programme, however, we have had unusual market conditions that we have used to generate short term savings. Those market conditions are forecast to normalise gradually during the strategy term, however, the new normal is forecast to be much lower than in previous economic cycles. Also, 58% of the Councils borrowings are for terms between 30 and 50 years, which brings certainty of cost and minimises interest rate risk on over half the portfolio.

29. In 2014-15 the Council borrowed £35m to prepay its pension deficit obligations for the following 3 years, which saved the Council £0.6m after borrowing costs. The Council is expecting to prepay the full pension deficit amount for 3 years and 80% of the future service rate (FSR) for 3 years in 2017/18. The prepayment is estimated at circa £60m based on current assumptions, which will be confirmed with the Actuary. The Council will need to borrow funds to provide the cash flow for the prepayment; the one-off savings will exceed the borrowing costs and will fund the one-off borrowing costs. The impact of this borrowing is not included within the figures provided in the report; however all borrowing will be undertaken within the requested borrowing limits.

30. It is likely that the UK Municipal Bond Agency, currently in the process of finalising its first issue, will be offering loans to local authorities in the near future. It is also hoped that borrowing rates will be lower than those offered

by the PWLB. This Authority intends to make use of this new source of borrowing as and when appropriate.

Current Portfolio Position

31. There are a number of key prudential indicators to ensure that the Council operates within well-defined limits. One of these is that the Council needs to ensure that its total borrowing, net of any investments, does not exceed the total of the Capital Financing Requirement (CFR). This helps to ensure that over the medium term borrowing is not undertaken for revenue purposes.

32. The Chief Financial Officer & Assistant Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report. As previously stated the Council's external borrowing at 31 March 2017 is expected to be £444.096m. The borrowing need (total CFR) is £518.455m which highlights that the Council will be under borrowed by £74.359m. (see paragraphs 35 - 37 below) The full treasury portfolio position, with forward projections is summarised in **Appendix A** (indicator 10). The next table shows the make up of the Council's two debt pools.

General Fund	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR GF	251.545	253.366	273.067	280.994	288.887	295.613
External Borrowing GF	201.683	201.838	227.085	238.947	252.809	245.859
Under Borrowed Position	49.862	51.528	45.982	42.047	36.078	49.754
Ave. Interest Rate	3.63%	3.68%	3.69%	3.69%	3.64%	3.58%
CFR HRA	264.297	265.089	267.069	267.069	267.069	267.069
External Borrowing HRA	241.498	242.258	244.238	244.238	244.238	244.238
Under Borrowed Position	22.799	22.831	22.831	22.831	22.831	22.831
Average Interest Rate	4.93%	4.83%	4.87%	4.89%	4.91%	4.89%

33. All borrowing costs used to be shown against General Fund (GF). However, for clarity and transparency, since the HRA became self-financing, we have split borrowing between the HRA and GF pools. Both pools have relatively low interest rates (see above table) which are expected to stay flat between 2017/18 and 2020/21. The average interest rate on HRA debt is higher than the GF debt as the pool contains a higher proportion of older debt taken out at higher interest rates.

34. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be

calculated in accordance with proper accounting practices. This will require interest expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the GF will be allocated to the GF.

Under- Borrowing

35. The Council is currently maintaining an under-borrowed position. This means that the level of actual debt is below the Capital Financing Requirement (the amount the authority needs to borrow for capital purposes) and therefore the Council has to use internal resources such as ear-marked reserves, unapplied grants and capital receipts, cash balances, etc. to fund some of its unfinanced capital expenditure.

36. This strategy is beneficial because external debt payments are minimised and funds available for investments are reduced at a time when investment returns are low.

37. This position cannot be sustained in the long term. At some point the reserves and balances will be needed and as a consequence the need to borrow will increase. This could be short-term or long-term borrowing. The Council have used short-term borrowing opportunities from other authorities as they have restricted lending lists which means they lend at rates much lower than market rates.

Short-Term Borrowing

38. The use of short-term borrowing can make the borrowing portfolio volatile in terms of interest rate and refinancing risk. The benefit to the Council is low interest costs which has enabled the treasury management function to generate savings. The risk inherent to using this approach has to be balanced against the need to find savings and produce a balanced budget.

39. There is a risk associated with a short-term borrowing strategy. As interest rates are likely to rise in future years, long-term borrowing will be more expensive than it is currently. By deferring long term borrowing until later years it is likely that additional costs will be incurred. We are balancing long term stable interest costs against short term interest savings.

Risk Strategy

40. The strategies of internal and short-term borrowing generate immediate savings but are not sustainable in the long term given the level of interest rate risk within the portfolio. Three distinct risks have been identified:

    a) The increased use of reserves and provisions reduces the funds currently financing the under-borrowing. This will force the Council to borrow externally

    b) Short-term interest rates increase making the short-term borrowing strategy more expensive than a long-term alternative.

    c) There is an on-going risk that long-term interest rates rise significantly so that the switch from short-term borrowing becomes very costly.

41. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2017/18 treasury operations. The Chief Financial Officer & Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that long term fixed rate funding will be drawn whilst interest rates were still relatively cheap. We are already seeing an increase in inflation in line with Bank of England forecasts due to the fall in sterling post Brexit. However, the current levels do not yet justify a sharper than forecast increase in interest rates.

Transfer of Loans between Debt Pools

42. The Council's policy on transferring loans between the HRA and GF debt pools is as follows:

    - In the case of the HRA/General Fund having a requirement to fund its Capital Financing Requirement (CFR), then one debt pool may be used to subsidise another to reduce either the GF or the HRA external borrowing requirement.
    - If this happens, then loans will be transferred between the pools without the need to recognise an internal premium or discount.
    - Similarly, if the HRA and General Fund wish to swap loans as a result of strategic decisions, this loan swap would also be undertaken at no internal premium or discount.

Under Borrowing

43. Where the HRA or General Fund has surplus cash balances which allow either account to fund internal, the rate charged on this internal borrowing will be based on the average external rate of interest on the applicable pool at the end of the financial year. This is a reasonable approach providing certainty of charging, protection against short term increases in market rates and reflects the fact that strategic borrowing decisions will generally be made on an annual basis.

Treasury Indicators: Limits to Borrowing Activity

44. These are the 2 overall controls for treasury management external borrowing:

    - The 'operational boundary' for external borrowing; and
    - The 'authorised limit' for external borrowing.

The Operational Boundary

45. This is the normally expected limit for external borrowing. In most cases, this would be a similar figure to the Capital Financing Requirement (CFR). However, DMBC's operational boundary adds our 'other long term liabilities' (which is Metropolitan Debt transferred from South Yorkshire).

	Actual	Estimates				
	2015/6 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR/Borrowing	515.842	518.455	540.136	548.063	555.956	562.682
Other long-term liabilities – 'Met. Debt'	9.928	8.302	6.513	4.800	3.100	1.400
Total	525.770	526.757	546.649	552.863	559.056	564.082

The Authorised Limit for external borrowing

46. A further key prudential indicator is a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council.

47. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

48. This allows the Council to borrow in advance (up to 3 years) of need for future planned expenditure – relating solely to unfinanced capital expenditure in any future 3 year period. DMBC do not borrow in advance and this would only be considered where interest rates were preferential and to avoid future interest rate risk.

	Actual	Estimates				
Authorised limit	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	515.842	518.455	540.136	548.063	555.956	562.682
Other long-term liabilities – 'Met. Debt'	9.928	8.302	6.513	4.800	3.100	1.400
Theoretical amount*	49.651	55.510	41.027	26.979	12.931	0.000
Total	575.421	582.267	587.676	579.842	571.987	564.082
HRA Debt Limit	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**

* Theoretical amount that could be borrowed in advance for unfinanced capital expenditure in future years.

Separately, the Council is also limited to a maximum HRA Capital Financing Requirement (CFR) through the self-financing regime. This is called the HRA debt limit and equates to £269.9m through to the end of 2020/21.

Prospects for Interest Rates

49. Following a competitive tender, the Council has re-appointed Capita Asset Services, Treasury Solutions as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix D** draws together a number of current City forecasts for short term (Bank Rate) and longer term fixed interest rates.

50. Forecast interest rates for borrowing are expected to continue to be higher than interest rates received on investments, therefore the strategy remains to defer some borrowing and to utilise internal funds to support the Capital

Programme (under borrowing). The primary borrowing strategy is to take shorter term loans to minimise interest costs. Key factors which will continue to have a major impact on the level of UK interest rates during 2017/18 will be the negotiation of terms for the UK's withdrawal from the EU. It is likely that the Bank of England Monetary Policy Committee will do nothing to dampen growth prospects, (e.g. by raising Bank Rate) which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. With this in mind it is unlikely that the next increase in Bank Rate will come before 2019. Our target borrowing rate for 2017/18 is 2.0%.

51. Whilst our borrowing rates have taken account of all known factors including the advice of our treasury management advisors it is possible that rates could change unexpectedly. A significant rise in short term interest rates could expose the Council to additional interest costs. A 1% increase in interest on loans due to mature within the next 12 months would cost the General Fund an additional £72k per annum.

Treasury Management Limits on activity

52. There are three debt related treasury activity limits, **Appendix A**, (Indicators 13 to 15). The purpose of these are to keep 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 (30%) for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure (100%). 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 to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Policy on Borrowing in Advance of Need

53. The Council 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. At present DMBC do not borrow in advance.

54. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (Capital Financing Requirement) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need.

55. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

56. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, 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).

57. 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.

58. All rescheduling will be reported at the earliest meeting following its action.

Annual Investment Strategy

Investment Policy

59. The Council's investment priorities will be security first, liquidity second, then return.

60. In order to minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of financial institutions for inclusion on its lending list. The methodology used to create the lending list takes account of the ratings and watches published by all three ratings agencies, Fitch, Moody's and Standard & Poors, with a full understanding of what the ratings reflect in the eyes of each agency. Using the Capita Asset Services, Treasury Solutions ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

61. Long Term Credit Rating Equivalents and Definitions

Fitch	**Moody's**	**Standard and Poor's**
AAA Highest credit quality. "AAA" ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversly affected by foreseeable events.	**Aaa** Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	**AAA** An obligator rated "AAA" has extremely strong capacity to meet its financial commitments. "AAA" is the highest issuer credit rating assigned by S&P.
AA (+/-) Very high credit quality. "AA" ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to	**Aa (1/2/3)** Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	**AA (+/-)** An obligator rated "AA" has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only by a small degree.

foreseeable events.		
A (+/-) High credit quality. “A” ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.	**A (1/2/3)** Obligations rated A are considered upper-medium grade and are subject to low credit risk.	**A (+/-)** An obligator rated “A” has strong capacity to meet its financial commitments but is more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.
There are 1 investment grade and 18 sub investment grade ratings below this level but this Council will not deal in financial instruments rated below the above levels, or equivalent.		

62. Further, the Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial markets in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

63. 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 financial institutions.

64. The aim of the strategy is to generate a list of highly creditworthy financial institutions/products which will also enable diversification and thus avoidance of concentration risk.

65. The intention of the strategy is to provide security of investment and minimisation of risk.

66. Where the HRA or GF has surplus cash balances invested the interest shall be credited based on the relative proportions of the balances. Where an investment is impaired the charge shall also be shared based on the relative proportions of the balances.

67. Investment instruments identified for use within the financial year are listed in **Appendix E** under the “Specified” and “Non-specified” investment categories.

68. The CLG Guidance defines Specified Investments as those:

    - Denominated in sterling
    - Due to be repaid within 12 months of the arrangement
    - Not defined as Capital Expenditure by legislation and invested with one of
    - The UK Government
    - A UK local authority, parish council, or community council, or

- A body or investment scheme of "high credit quality"

69. Non-Specified Investments are any that do not meet the above criteria.

Investment Strategy

70. 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).

71. Bank Rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019 and are unlikely to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

Financial Year	Rate
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.75%
Forecast rates are not available beyond 2019/20.	

72. Policy rates are not expected to tighten for some considerable time, so some of the longer dated deals on offer continue to present some potential advantage.

73. The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 6 months during each financial year for the next 3 years are as above. These rates have been used to estimate investment interest during the strategy term.

74. The Council will use the 7 day (London Interbank Dib Rate)LIBID as its investment benchmark.

75. There is an unlikely risk that rates will increase later than forecast if inflation prospects remains weak for longer than expected. However, should the pace of inflation pick up more sharply than expected the rates could increase earlier, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of Englands' 2% target rate. The Bank of Englands forward guidance should be a good indicator of where interest rates are going.

76. To bring balance to the portfolio funds generated through the Council's cash flow will be invested on the following basis:-

    Liquid Funds (approx. £20m)

    This part of the portfolio should be managed at around £20m. This allows for the payment of payroll on dates within the year when grants are delayed due to the 15th being on a weekend (April 2017, July 2017, October 2017).

    This part of the portfolio should be invested in bank deposits (call accounts, notice accounts) and Money Market Funds. The existing bank connections should be used and for money market funds a selection process, supported by our Treasury Management Advisers, and giving access to an online platform, to aid efficient trading, should be undertaken.

Other specified Investments (approx. £40m)

The Council should continue to invest in UK Government Treasury Bills, which will have a maturity date of less than 6 months (the maximum term).

The Council should continue to invest in high quality Certificates of Deposit (rank equally with bank deposits re bail in) which provides access to a wider range of higher rated banks.

The Council should continue to invest in high quality bonds issued by banks, with a maturity date of less than 12 months.

The Council should look to invest in other Corporate Bonds that meet its minimum investment criteria, with a maturity of less than 12 months.

The Council should enter into Collateralised Deposits (repurchase/Reverse Repurchase) arrangements utilising its existing custodial arrangements with King & Shaxson brokers. This is a method of secured deposit with a bank.

Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

Index linked Gilts
Conventional Gilts
UK Treasury bills
Corporate bonds"

Non-Specified Investments (Maximum £20m)

The Council should continue to invest in suitable longer term fixed deposits with banks.

The Council should look to invest in high quality Certificates of Deposit with a maturity date in excess of 12 months.

The Council should look to invest in high quality bonds issued by banks, with a maturity date in excess of 12 months.

The Council should look to invest in other Corporate Bonds that meet its minimum investment criteria, with a maturity in excess of 12 months.

77. A full list of Specified and Non-Specified investments is in **Appendix E**.

78. Any new Non-Specified investment will require authorisation by the Councils Section 151 Officer. Details of minimum criteria and any additional due diligence required can be seen in **Appendix E**.

Credit Risk Policy

79. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating equal to the UK's sovereign rating (minimum rating as confirmed by at least two agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix E.** This list will be amended by officers should ratings change in accordance with this policy. Any changes will be approved by the Councils Section 151 Officer, or Deputy. Not all counterparties will be active in the market at all times, therefore it is important to have a good spread of available organisations.

80. The Council applies the credit risk assessment service provided by Capita Asset Services, Treasury Solutions.

81. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies.The credit ratings of financial institutions are supplemented with the following overlays:

82. credit watches and credit outlooks from credit rating agencies;

83. Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;

84. Sovereign ratings to select financial institutions from only the most creditworthy countries.

85. The model is a series of bands which indicate the relative creditworthiness of financial institutions. This is used by the Council to determine the duration of investments. The model will also be used to select institutions with a high level of creditworthiness, based on the following bands. The Council will therefore use financial institutions within the following durational bands.

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

Colour	**Maximum Term**
Yellow	5 Years
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 (applies to nationalised or semi nationalised UK Banks)
Orange	1 Year
Red	6 Months
Green	100 Days
No Colour	Not to be used

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks *	Yellow	£50m	5 years
Banks	Purple	£40m	2 years
Banks	Orange	£30m	1 year
Banks – part nationalised	Blue	£30m	1 year
Banks	Red	£20m	6 months
Banks	Green	£10m	100 days
Banks	No colour	Not to be used	
Council's banker (Lloyds Bank)	One colour band upgrade	As per relevant band	As per relevant band
Other institutions limit	-	£20m	1 year
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£30m	5 years
	Fund rating	Money and/or	Time

		% Limit	Limit
Money market funds	AAAmmf	£20m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m	liquid

86. This methodology is even more cautious than the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy financial institutions. The Capita Asset Services, Treasury Solutions creditworthiness service uses a wider array of information in addition to the primary ratings and by using a risk weighted scoring system, does not give undue weighting to one agency's ratings.

87. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivqlents) of F1 and a long term rating of A-. There may be occasions when another rating agency's counterparty ratings may be used that are marginally lower than Fitch's counterparty ratings, but in such instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

88. All credit ratings are monitored daily and changes to ratings are notified to us by Capita Asset Services, Treasury Solutions's creditworthiness service.

89. If a downgrade results in the financial institution/ investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

90. In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Policy on the use of external service providers

91. Following a competitive tender process the Council has re awarded its Treasury Consultancy contract to Capita Asset Services, Treasury Solutions as its external treasury management advisors until December, 2021.

92. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

93. It also recognises 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.

94. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training has been undertaken by members and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

OPTIONS CONSIDERED

95. Other options that have been considered and members need to be aware of, when compiling this report, that would affect the investments and borrowing decisions are as follows:-

Options	Likely impact on Income and Expenditure	Likely impact on risk management
Invest in a narrower range of institutions and shorter terms	Interest income will be lower	Reduced risk of losses from credit related defaults, but any single loss could be magnified.
Borrow additional sums at long term fixed interest rates	Debt interest costs will rise, this is unlikely to be offset by higher investment income	Reduced interest rate risk. But higher investment balance could lead to a higher impact in the event of a default.
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income. Premium to be paid if debt paid down (avoided if the reduction is done by not replacing maturing debt).	Reduced investment balance leading to a lower impact in the event of default, however long term interest costs become less certain.
Increase level of borrowing	Additional cost of debt interest is likely to exceed additional investment income received.	Under borrowing uses a combination of reserves and working capital. Any adverse changes to either could lead to cash not being available to fund expenditure. Leading to increased levels of borrowing.
Borrow sufficient funds to clear the under borrowed position	Additional interest costs of up to £2.134m per annum.	Reduced interest rate risk, but significantly higher costs. In addition the higher investment balance could lead to a higher impact in the event of a default.

REASONS FOR RECOMMENDED OPTION

96. The strategy provides a good balance between our existing, predominantly long maturity profile to produce additional savings to support front line budgets and service provision. Remaining under borrowed also reduces the risk of losses from failed investments.

IMPACT ON THE COUNCIL’S KEY OUTCOMES

Outcomes	Implications
All people in Doncaster benefit from a thriving and resilient economy. Mayoral Priority: Creating Jobs and Housing Mayoral Priority: Be a strong voice for our	Treasury Management impacts on all the outcomes; it makes sure that the Council’s cash is organised in accordance

veterans Mayoral Priority: Protecting Doncaster's vital services	with the relevant professional codes, so that sufficient cash is available to meet the Council's service activity in line with the Capital Programme. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk financial institutions or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.
People live safe, healthy, active and independent lives. Mayoral Priority: Safeguarding our Communities Mayoral Priority: Bringing down the cost of living	
People in Doncaster benefit from a high quality built and natural environment. Mayoral Priority: Creating Jobs and Housing Mayoral Priority: Safeguarding our Communities Mayoral Priority: Bringing down the cost of living	
All families thrive. Mayoral Priority: Protecting Doncaster's vital services	
Council services are modern and value for money.	
Working with our partners we will provide strong leadership and governance.	

RISKS AND ASSUMPTIONS

97. This strategy report along with the Council's Treasury Management Practice Statements seeks to limit as far as possible the risks associated with the Council's Treasury function. However, the economic climate and financial markets are dynamic, and, can be prone to sharp unexpected movements. Treasury Officers, the Chief financial Officer & Assistant Director of Finance and the Council's advisors will continually monitor the environment and act as necessary to limit risk and achieve best value for the Council.

98. Treasury management performance is reported quarterly as part of the council's performance and financial monitoring report. All risks and prudential indicators are reviewed for this purpose.

99. This report setting the MRP policy ensures that the Council complies with the legislative requirements placed on the Council.

Risk Table			
Risk	Probability	Impact	Mitigation
Increased use of reserves and provisions reduces the funds currently financing the under-borrowing.	Low	High	Monitor use of reserves, cash flow forecast and interest rates to manage the borrowing to minimise any impact on the forecast savings.
Unable to borrow	Low	High	Risk is mitigated by maintaining

Risk Table			
Risk	Probability	Impact	Mitigation
when funding required due to adverse market conditions and/or budgetary constraints			sufficient easily accessible resources. Further mitigating actions would be scaling back or re-profiling capital expenditure plans if necessary.
Interest Rates higher than forecast for new borrowing.	Medium	Medium	Monitor Economic forecasts and consult with the Council's Treasury Advisor and adjust strategy as appropriate.
Lower than forecast returns on investment portfolio.	Low	Low	Monitor Economic forecasts and consult with the Council's Treasury Advisor and adjust strategy as appropriate.
An institution with Council Investment becomes insolvent.	Low	High	Continually monitor credit ratings of approved institutions and spread investment over a number of financial institutions. In addition implement recommended actions contained in paragraphs 79 – 90 to further mitigate the risks.
A financial institution does not repay an investment at maturity date due to an administration error (not insolvency)	Low	Low	Record all deals undertaken to eliminate administration errors. Ensure adequate borrowing facilities exist to cover temporary cash flow shortfall

LEGAL IMPLICATIONS

100. The Council's Treasury Management activities are regulated by a variety of professional codes, statutes and guidance:-

a. Chapter 1 Part 1 of the Local Government Act 2003 (the Act) provides the powers to borrow as well as providing controls and limits on such capital finance and accounts;

b. the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, develops the controls and powers within the Act;

c. the Regulations require local authorities to have regard to the code of practice entitled the Prudential Code for Capital Finance in Local Authorities published by CIPFA when determining their affordable borrowing limit;

d. the Regulations also require local authorities to operate its overall treasury function having regard to the code of practice contained in the document entitled Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes published by CIPFA;

e. the Regulations require local authorities, for each financial year, to make a minimum revenue provision, which they consider to be prudent, in respect of the financing of capital expenditure incurred in that and previous years.

The Treasury Management function is included in the Chief Financial Officer duties under Section 151 of the Local Government Act 1972 to administer the Council's financial affairs.

FINANCIAL IMPLICATIONS

101. The treasury management budget required for 2017/18 has been reviewed and analysed over the following headings:

	General Fund £'m	**HRA £'m**
Costs		
Existing External Borrowing	6.677	10.618
Replacement External Borrowing	0.775	0.189
New External Borrowing	0.171	0.020
Total Borrowing Costs	**7.623**	**10.827**
MRP	2.815	0.000
Treasury Management Expenditure	0.124	0.000
Total Costs	10.562	10.827
Income		
HRA recharge	-1.016	1.016
Investment Interest	-0.153	0.000
Net Costs	**9.393**	**11.843**

The 2016/17 budget is £11.6m, therefore £2.23m savings can be delivered through delaying borrowing (under-borrowing) and current low interest rates on borrowing. The HRA interest costs are included in the HRA budget.

HUMAN RESOURCES IMPLICATIONS

102. None.

TECHNOLOGY IMPLICATIONS

103. None.

EQUALITY IMPLICATIONS

104. The Council must consider and have due regard to the three aims of the general equality duty, when developing and implementing the Treasury Management Strategy. By ensuring that the Treasury Management function is effective we can ensure that the right resources are available at the right time to enable the delivery of services. The equality implications for the revenue and capital budgets are detailed in the respective reports within the agenda papers.

CONSULTATION

105. The Council obtains advice from specialist organisations in respect of its treasury management activities. The impact of this is then assessed for its effect on the Council and appropriate action taken as necessary. Consultation has taken place with key financial managers and the Council Executive.

106. This report has significant implications in terms of the following:

Procurement		Crime & Disorder	
Human Resources		Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	
ICT		Capital Programme	X

BACKGROUND PAPERS

C.I.P.F.A. Treasury Management in the Public Services (Revised 2013).The Prudential Code for Capital Finance in Local Authorities (Revised 2013).

Local Government Investments – Guidance under Section15 (1) of the Local Government Act 2003.

Department for Communities and Local Government – Guidance on Local Government Investments.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended]

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 [SI 2010/454].

Audit Commission Risk and Return – English Local Authorities and the Icelandic Banks, March 2009.

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APPENDIX A

Capital Prudential Indicators

Indicator 1.

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.

Capital Expenditure	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Adults, Health & Wellbeing	3.224	4.148	4.474	3.183	2.623	4.230
Finance & Corporate Services	0.439	3.407	17.312	16.706	13.696	12.890
Learning & Opportunity	8.808	8.341	10.253	5.436	9.630	6.300
Regeneration & Environment	50.790	46.457	53.533	23.791	33.405	13.584
Non-HRA	**63.261**	**62.353**	**85.572**	**49.116**	**59.354**	**37.004**
HRA	**43.943**	**37.366**	**33.600**	**28.436**	**21.610**	**17.760**
Total	**107.204**	**99.719**	**119.172**	**77.552**	**80.964**	**54.764**

Indicator 2.

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 requirement (borrowing).

Capital Expenditure	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
General Fund	63.261	62.353	85.572	49.116	59.354	37.004
HRA	43.943	37.366	33.600	28.436	21.610	17.760
Total	**107.204**	**99.719**	**119.172**	**77.552**	**80.964**	**54.764**
Financed by:						
Capital receipts	5.514	10.638	13.183	7.951	3.776	4.395
Capital grants	36.308	42.391	51.130	28.573	42.987	20.825
Capital reserves	0.879	0.960	0.553	0.000	0.000	0.000
Revenue[1]	41.666	35.532	28.349	28.437	21.610	17.760
Unfinanced b/fwd.	0.000	0.000	0.000	0.000	0.000	0.000
Unfinanced c/fwd.	0.576	-0.863	0.000	0.000	0.000	0.000
Total	**84.943**	**88.658**	**93.215**	**64.961**	**68.373**	**42.980**
Borrowing Requirement	**22.261**	**11.061**	**25.957**	**12.591**	**12.591**	**11.784**
Smartlight Grant Repayment	0	-2.872	1.457	1.457	1.457	1.147
Total Net	**22.261**	**8.189**	**27.414**	**14.048**	**14.048**	**12.931**

[1] the significant element of which is Housing rental income

Capital Expenditure	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Financing Need						

Indicators 3 & 4.

This 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.

	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR GF	251.545	253.366	273.067	280.994	288.887	295.612
CFR HRA	264.297	265.089	267.069	267.069	267.069	267.069
Total CFR	**515.842**	**518.455**	**540.136**	**548.063**	**555.956**	**562.682**
Movement in CFR	**13.549**	**2.613**	**21.681**	**7.927**	**7.893**	**6.726**

Indicator 5.

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 overleaf are estimates of the year end balances for each resource and anticipated day to day cash flow balances. It should be noted that the use of resources is difficult to predict and a cautious approach is taken.

Year End Resources	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Reserves balances	126.083	126.083	126.083	126.083	126.083	126.083
Capital receipts	5.398	8.277	11.869	7.058	2.818	3.830
Provisions	20.832	20.832	20.832	20.832	20.832	20.832
Other	12.487	12.487	12.487	12.487	12.487	12.487
Total core funds	**164.800**	**167.679**	**171.271**	**166.460**	**162.220**	**163.232**
Working capital	21.560	21.560	21.560	21.560	21.560	21.560
Under/over borrowing	72.661	74.359	68.813	64.878	58.909	72.585
Expected investments	**40.000**	**40.000**	**40.000**	**40.000**	**40.000**	**40.000**

Indicators 6 & 7.

This indicator identifies the trend in the cost of capital. This shows that the General Fund borrowing cost rises to just over 7.5% and the HRA is below 17.0%.

	Actual	Estimates				
	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
General Fund	6.14%	5.78%	6.15%	6.75%	7.16%	7.54%
HRA	15.64%	15.86%	16.05%	16.41%	16.69%	16.62%

Indicator 8.

Estimates of the Incremental impact of capital investment decisions on the band D council tax.

This indicator identifies the indicative revenue costs associated with proposed changes to the 4 year Capital Programme recommended in this budget report compared to the Council's existing approved commitments and current plans. However these costs are offset by savings to produce a balanced budget. 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 four year period.

	Actual	Estimate				
	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Council tax band D	13.06	3.13	7.19	2.20	4.51	0.57

Indicator 9.

Estimates of the incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing Capital Programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

	Actual	Estimates				
	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Weekly housing rent levels	2.23	0.52	1.32	0.00	0.00	0.00

Indicator 10.

The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	Actual	Estimates

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
External borrowing						
Borrowing at 1 April	436.583	443.181	444.096	471.324	483.185	497.047
Expected change in borrowing	6.598	0.915	27.228	11.862	13.862	-6.950
Actual borrowing at 31 March	443.181	444.096	471.323	483.185	497.047	490.097
CFR – the borrowing need	515.842	518.455	540.136	548.063	555.956	562.682
Under / (over) borrowing	72.661	74.359	68.813	64.878	58.909	72.585
Other long-term liabilities – 'Met. Debt'	9.928	8.302	6.513	4.800	3.100	1.400
Expected change in 'Met. Debt'	-1.000	-1.626	-1.789	-1.713	-1.700	-1.700
Investments						
Total Investments at 31 March	40.000	40.000	40.000	40.000	40.000	40.000
Investment Change	-4.000	0.000	0.000	0.000	0.000	0.000
Net borrowing	403.181	404.096	431.323	443.185	457.047	450.097

Treasury Indicators: Limits to Borrowing Activity

Indicator 11.

The Operational Boundary

This is the normally expected limit for external borrowing. In most cases, this would be a similar figure to the CFR; however this can be lower or higher depending on the levels of actual borrowing, which is normal practice.

Operational Boundary	Actual	Estimates				
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR/Borrowing	515.842	518.455	540.136	548.063	555.956	562.682
Other long-term liabilities – 'Met. Debt'	9.928	8.302	6.513	4.800	3.100	1.400
Total	**525.770**	**526.757**	**546.649**	**552.863**	**559.056**	**564.082**

Indicator 12.

The Authorised Limit for external borrowing

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

Authorised limit	Actual 2015/16 £m	Estimate 2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	515.842	518.455	540.136	548.063	555.956	562.682
Other long-term liabilities – 'Met. Debt'	9.928	8.302	6.513	4.800	3.100	1.400
Theoretical amount *	49.651	55.510	41.027	26.979	12.931	0.000
Total	**575.421**	**582.267**	**587.676**	**579.842**	**571.987**	**564.082**
HRA Debt Limit	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**

*Theoretical amount that could be borrowed in advance for unfinanced capital expenditure in future years.

Indicators 13 to 15.

Treasury Management Limits on Activity

The following table shows the treasury indicators and limits which are designed to minimise interest rate risk.

£m	2016/17	2017/18	2018/19	2019/20	2020/21
Interest rate Exposures					
	Upper	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%	30%

Forecast Maturity Structure of borrowing 2017/18				
	Amount £m	%	Lower	Upper
Under 12 months	20.550	4.36%	0%	30%
12 months to 2 years	38.554	8.18%	0%	50%
2 years to 5 years	50.573	10.73%	0%	50%
5 years to 10 years	28.468	6.04%	0%	75%
10 years and above	333.179	70.69%	10%	95%
Total	471.324	100.0%		

Indicator 16.

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.

Maximum principal sums invested > 364 days					
£m	2016/17	2017/18	2018/19	2019/20	2020/21
Principal sums invested > 364 days	20	20	20	20	20

Indicator 17.

CIPFA Treasury Management in the Public Services

This prudential indicator is that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

The aim is to ensure that treasury management is led by a clear forward plan based on the existing structure of the authority's borrowing and investment portfolios and the funding needs to deliver the approved Capital Programme.

The prime policy objectives of local authorities' investment activities are the security, and liquidity of funds, and they should avoid exposing public funds to unnecessary or unquantified risk. Authorities should consider the return on investments; however, this should not be at the expense of security and liquidity. Authorities should adopt an appropriate approach to risk management.

Authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed.

These principles should be borne in mind when investments are made, particularly for the medium to long term.

This council adopted the above on 22nd February 2010.

APPENDIX B

Minimum Revenue Position (MRP) Policy Statement

The Council has an annual duty to charge an amount of MRP to the General Fund Revenue Account which it considers to be a prudent provision. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers. The guidance on MRP allows different options for the calculation of MRP as below:

1) Regulatory method
2) CFR method
3) Asset Life method, using either
   a) Equal instalment method
   b) Annuity method
4) Depreciation method

2017/18 MRP Policy adopts;

Option 3a) predominantly the asset life method selecting the Equal Instalment calculation, will be applied to un-supported expenditure incurred after 2007/08. The appropriate asset life in relation to the asset funded by the borrowing will be applied; or for other capital spend e.g. Capitalisation Directions, acquisition of share or loan capital etc. the recommended life as per the government guidance for other capital expenditure will be used

and

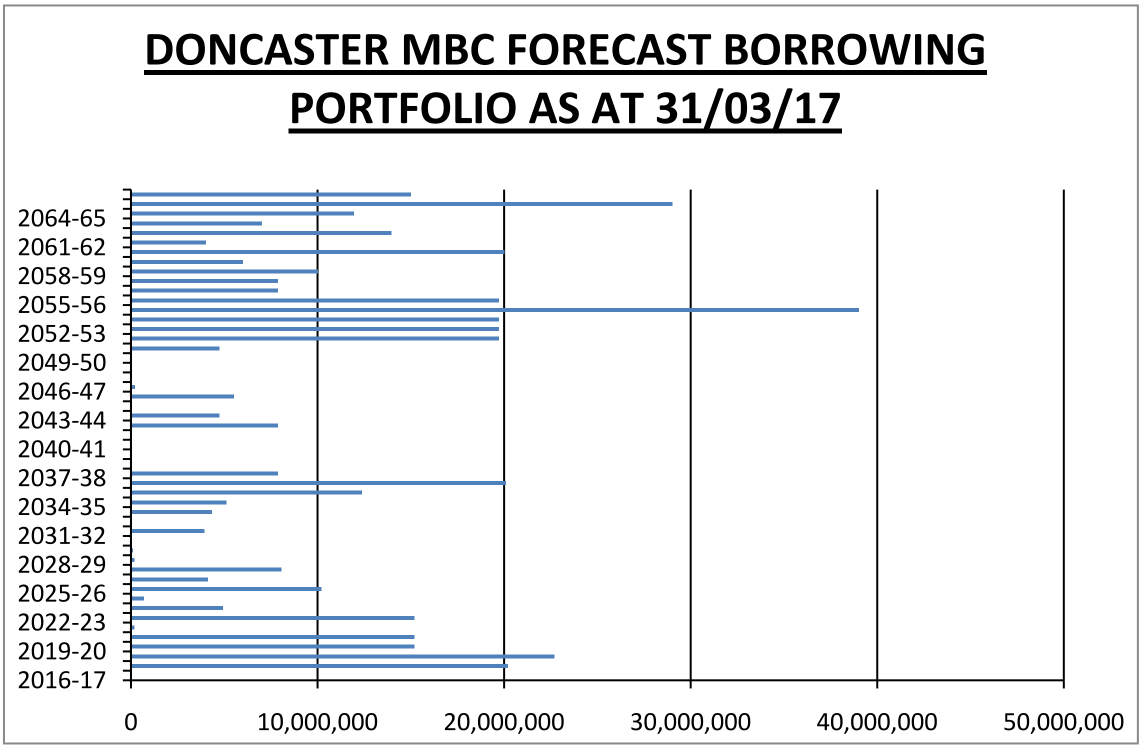
Option 3b) the asset life method selecting the Annuity method for;

- The calculation of MRP in relation to assets developed as part of the Civic and cultural quarter development funded by unsupported borrowing.

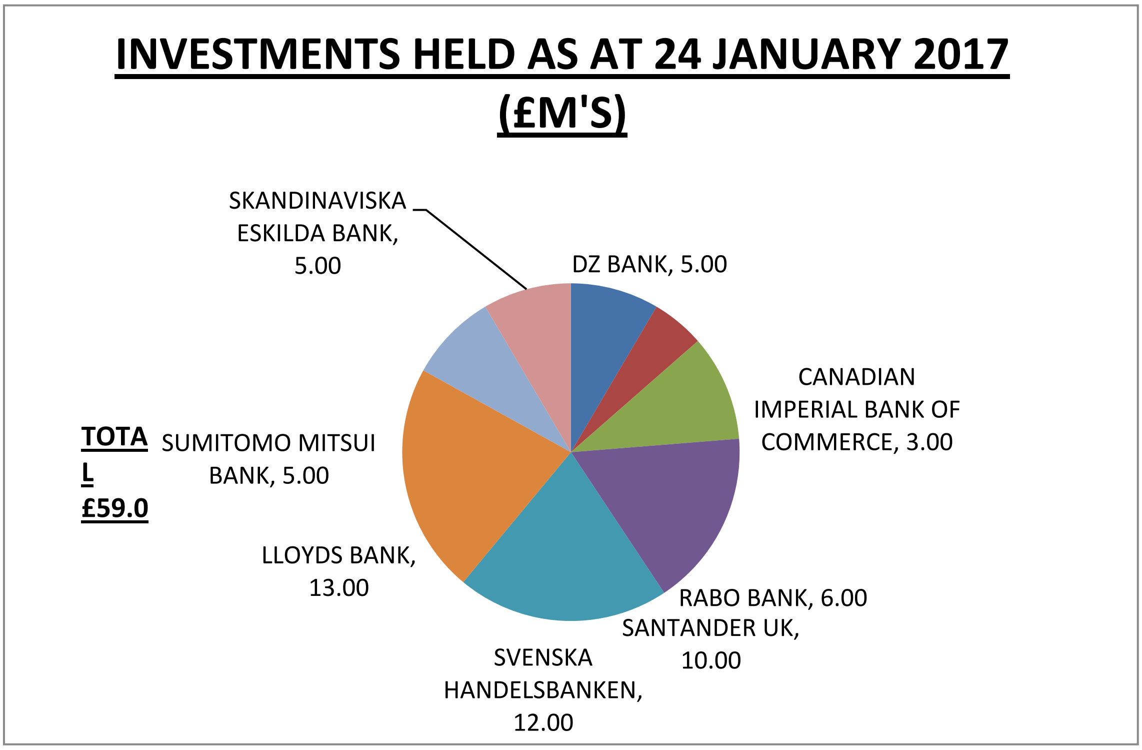
- The calculation of MRP provision in respect of its General fund CFR balance relating to pre 2007/08 government supported borrowing, and any further government supported debt applied post 2007/08.

- Where unsupported borrowing is used for a regeneration scheme, similar to the Civic and Cultural Quarter scheme, it should be considered whether the Annuity method be applied

APPENDIX C



Total loans £444m



Total investments £59m

APPENDIX D

Interest Rate Forecasts

Bank Rate	Now	Mar 2017	Mar 2018	Mar 2019	Mar 2020
Actual Jan 17	0.25%	-	-	-	-
Capita Asset Services view.	0.25%	0.25%	0.25%	0.25%	0.75%
Capital Economics(CE)	0.25%	0.25%	0.25%	0.25%	0.50%
5Yr PWLB Rate	PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12.				
Actual Jan 17	1.50%	-	-	-	-
Capita Asset Services.	1.60%	1.60%	1.70%	1.80%	2.00%
CE	1.40%	1.60%	2.10%	2.50%	3.00%
10Yr PWLB Rate	PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12.				
Actual Jan 17	2.24%	-	-	-	-
Capita Asset Services.	2.30%	2.30%	2.30%	2.50%	2.70%
CE	2.30%	2.40%	2.60%	2.90%	3.40%
25Yr PWLB Rate	PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12.				
Actual Jan 17	2.89%	-	-	-	-
Capita Asset Services.	2.90%	2.90%	3.00%	3.20%	3.40%
CE	2.85%	2.95%	3.25%	3.55%	4.05%
50Yr PWLB Rate	PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12.				
Actual Jan 17	2.66%	-	-	-	-
Capita Asset Services.	2.70%	2.70%	2.80%	3.00%	3.20%
CE	2.70%	2.80%	3.10%	3.40%	3.90%

APPENDIX E

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 30% of the investment pool will be held in aggregate in non-specified investment

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.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Term deposits – local authorities	N/a	£30m (maximum of £5m per authority)	12 months
Term deposits with banks and building societies	Yellow Purple Orange Red Green No Colour	£50m £40m £30m £20m £10m nil	12 months 12 months 12 months 6 months 100 days Not for use
Term Deposits with UK part nationalised banks	Blue	£30m	12 months
Certificates of Deposit or corporate bonds with banks and building societies	Yellow Purple Orange Red Green No Colour	£50m £40m £30m £20m £10m nil	12 months 12 months 12 months 6 months 100 days Not for use
Bonds issued by multilateral development banks	UK sovereign rating	100%	12 months
UK Government Gilts	UK sovereign rating	100%	12 months
UK Government Treasury Bills	UK sovereign rating	100%	6 months

Debt Management Agency Deposit Facility	--	100%	6 months
Collateralised deposit (Reverse Repurchase) (see note 2)	UK sovereign rating	100%	12 months
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	100%	12 months
Sovereign bond issues (other than the UK govt)	UK sovereign	100%	12 months
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -			
Government Liquidity Funds	AAA MMF rating	100%	Liquid
Money Market Funds	AAA MMF rating	100%	Liquid
Enhanced Cash Funds with a credit score of 1.25	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid
Enhanced Cash Funds with a credit score of 1.5	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid

Note 1. If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of the Accounting Code of Practice.

Note 2. As collateralised deposits are backed by collateral such as UK Gilts, corporate bonds, etc. this investment instrument is regarded as being a AA rated investment as it is equivalent to lending to the UK Government.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 30% will be held in aggregate in non-specified investment

Maturities in excess of 1 year

	Minimum 'High' Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Term deposits – local authorities	N/a	£10m (maximum of £5m per authority)	5 years
Term deposits with banks and building societies	Yellow Purple Orange Red Green	£25m £20m £15m £10m £5m	5 years 4 years 3 years 2 years 1 year
Term Deposits with UK part nationalised banks	Blue	£15m	5 years
Certificates of Deposit or corporate bonds with banks and building societies	Yellow Purple Orange Red Green	£25m £20m £15m £10m £5m	5 years 4 years 3 years 2 years 1 year
Bonds issued by multilateral development banks	UK sovereign rating	£5m	5 years
UK Government Gilts	UK sovereign rating	100%	50 years
Collateralised deposit (Reverse Repurchase)	UK sovereign rating	100%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	£5m	10 years
Sovereign bond issues (other than the UK govt)	UK sovereign	£5m	5 years
Bond Funds	Fitch rating Short term F1, long Term A- or equivalent	£5m	10 years
Gilt Funds	Fitch rating Short term F1, long Term A- or equivalent	£5m	10 years
Municipal Bonds	UK sovereign rating	£5m	5 years
Floating Rate Notes	Fitch rating Short term F1, long Term A- or equivalent	£5m	5 years
Covered Bonds	Fitch rating Short term F1,	£5m per bond	10 years

	long Term A- or equivalent		
Unrated Bonds	**Non-rated internal due diligence	£5m per bond	10 years
Churches, Charities and Local Authorities (CCLA) Property Fund	**Non-rated internal due diligence	£5m	10 years
Property Funds*	**Non-rated internal due diligence	£5m	10 years

*The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

**Due Diligence will include the following, if available, however the list isn't intended to be exhaustive:-

Capitalisation of the organisation,
Revenue profits and margin trends,
Competitors and industry,
Valuation multiples e.g. price/earnings ratio,
Management and share ownership and track records,
Balance sheet analysis,
Examination of future plans and expectations,
Stock options and dividend policy.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings equivalent to the UK higher (based on two out of three ratings from the agencies Fitch, Moody's and S&P) and have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

Australia
Canada
Denmark
Germany
Netherlands
Singapore
Sweden
Switzerland

AA+

Finland
Hong Kong
U.S.A.

AA

Abu Dhabi (UAE)
France
Qatar
U.K.

Appendix F

Agenda Item No:

Date: 14 February 2017

To the Chair and Members of the CABINET

TREASURY MANAGEMENT ANNUAL REPORT YEAR ENDED 31ST MARCH, 2016

Relevant Cabinet Member(s)	Relevant Overview and Scrutiny Panel	Wards Affected	Key Decision
Mayor Jones	OSMC	All	

EXECUTIVE SUMMARY

1. During the year the Councils borrowing and investments have been managed in line with the treasury management strategy set out for 2015/16 which was approved by Council on 03/03/2015.

2. Due to the forecast interest rate environment where borrowing interest rates were expected to be higher than investment interest rates, the 2015/16 strategy was to defer borrowing and utilise internal funds to support the capital programme. When borrowing was required, the strategy was to take longer term loans choosing maturities that either fit within gaps in, or at the end of the existing debt. Cheaper short term borrowing rates would continue to be used for part of the portfolio if value for money could be shown, or forecast interest rate increases moved further away.

3. Thanks to the continued low borrowing interest rates the strategy led to a Treasury Management under spend of £1.129m for 2015/16, in addition to the £3m previously identified savings. It should be noted that this strategy will need to be modified as and when the low interest rate environment changes, or when the deferred borrowing is required, but there are no indications that this is going to be anytime soon.

4. By minimising external borrowing during the year savings were made, whilst at the same time minimising the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment.

5. The Council operated within the financial limits set out in the Treasury Strategy and the Prudential Borrowing limits and complied with the relevant Regulations and guidance.

EXEMPT REPORT

6. N/a

RECOMMENDATIONS

7. That the Cabinet agree this Treasury Management Annual Review Report, noting the successful delivery within the strategy set for 2015/16, and note the performance against the Prudential Indicators contained in **Annex A**.

WHAT DOES THIS MEAN TO THE CITIZENS OF DONCASTER?

8. Delivery of the Strategy ensured that the Council's Capital Programme was affordable and took advantage of historically low interest rates to generate savings for the Council. By ensuring that the Treasury Management function is effective we ensure that the right resources are available at the right time to enable the delivery of services.

BACKGROUND

9. The revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council on 2nd February, 2010, and the Council fully complies with its requirements. This report meets the requirements of the code.

10. During 2015/16 the minimum reporting requirements were that the Council should receive the following reports:

    - An annual Treasury Management Strategy in advance of the year (Council 03/03/15).
    - A mid-year (minimum) Treasury Management Strategy update report (Included in quarterly Finance/Performance Monitoring Report).
    - An annual review following the end of year describing the activity compared to the strategy (this report).

11. Regulations place responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

12. Treasury Management in this context is defined 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."

13. This annual report comments on the delivery of:-
    - the Council's Treasury Management position as at 31st March, 2016;
    - the strategy for 2015/16;
    - the forecast and actual economic activity and interest rates;
    - the borrowing activity for 2015/16;
    - the investment activity for 2015/16;

- Compliance with treasury limits.

Treasury Portfolio Position

14. The debt and investment position at the beginning and end of the financial year were as follows:-

	As At 01.04.15 £'m	Average Interest Rate %	As At 31.03.16 £'m	Average Interest Rate %
Fixed Rate	407.6		443.2	
Variable Rate	29.0		0.0	
Total Debt	**436.6**	**4.06**	**443.2**	**4.01**
Investment	**64.3**	**0.49**	**41.9**	**0.69**

Economic Activity (2015/16)

Forecast

15. The treasury management strategy approved by Council in March 2015 contained a forecast that interest rates for 2015/16 anticipated low but rising Bank Rate (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17.It was expected that the recovery for the global economy would be long and drawn out, with many bumps along the way, which was expected to keep interest rates at the same low levels for at least 12 months.

Outturn

16. The financial year 2015/16 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. In this scenario, the treasury strategy was to continue to postpone borrowing to avoid the cost of holding higher levels of investment and to reduce counterparty risk. The actual movement in PWLB rates during the year was a small increase in the first quarter followed by marked bouts of volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

Borrowing Activity

Strategy

17. The amount of new borrowing for 2015/16 was estimated to be £76.81m, which included £43.88m of maturing loans which required refinancing. The primary strategy was for borrowing activity to be driven by cash flow and due to the scope within the existing debt maturity profile, to take longer term borrowing for up to 50 years to take advantage of lower long term rates, in advance of forecast interest rate increases.

18. The Council is currently maintaining an under-borrowed position. This means that the level of actual debt is below the Capital Financing Requirement (the amount the authority needs to borrow for Capital purposes) and therefore the Council has to use internal resources such as ear-marked reserves, unapplied grants and capital receipts, cash balances, etc. to fund some of its unfinanced capital expenditure.

19. This strategy is beneficial because external debt payments are minimised and funds available for investments are reduced at a time when investment returns are low and financial institution risk is high.

20. This position cannot be sustained in the long term. At some point the reserves and balances will be needed and as a consequence the need to borrow will increase. This could be short-term or long-term borrowing. The Council have used short-term borrowing opportunities from other authorities as they have restricted lending lists which means they lend at rates much lower than market rates.

Outturn

21. During the 2015/16 financial year £61.9m in new external borrowing was undertaken, this was lower than the original estimate of £65.2m for the following reasons:-

    - Borrowing continued to be minimised to avoid interest cost and to mitigate investment risk against continued uncertainty about the viability of the financial institutions.

    - The Capital Programme borrowing requirement fell from £33m to £21m during the year.

    The historically low bank interest rate also meant that the return earned from the investment balance remained reduced and impacted on the position assumed in the budget. Minimising external borrowing during the year meant savings were made by avoiding borrowing costs.

22. The timing of borrowing was in line with the Councils cash flow. This enabled us to take borrowing later than previously forecast, which minimised the interest charged and contributed to the under spend.

23. Long term loans were arranged via the PWLB which allowed the council to lock into very low long term rates of between 2.96% and 3.50%. This has brought stability to the interest costs and removed some of the volatility seen in the portfolio from using short term borrowing.

Debt Rescheduling

24. Debt rescheduling relates to the early repayment of loans in order to generate a revenue saving or change to the structure of the debt maturity profile.

25. On 1st November, 2007, the Public Works Loans Board (PWLB) introduced a two tier rate system, which effectively made it more expensive for Councils to repay debt. This precluded any rescheduling opportunities being undertaken during the 2015/16 financial year, which was outlined and planned as part of the strategy; however this situation is constantly reviewed in conjunction with our external Treasury Advisers.

Investment Activity

Strategy

26. The Council's in-house managed funds are mainly cash flow derived such as grants and other income received to be spent later. Therefore investments will be made with reference to the balances and cash flow requirements and the outlook for interest rates.

Outturn

27. The result of the investment activity was as follows:-

Average investment balance throughout the year	£87.8m
Rate of return	0.69%
Benchmark Rate	0.36%
Investment balance as at 31/03/16	£41.9m

28. Actual interest earned was £262k higher than forecast due to carrying a higher balance which provided access to higher interest rates by investing part of the portfolio over a slightly longer term than just overnight.

29. The investment portfolio as at 31st March, 2015 is summarised in **Annex A.**

Icelandic Bank Deposit

30. The Council currently holds £23.7k in the Escrow account, held in Icelandic Krona. This will remain in place earning interest until such time as the Icelandic Government relaxes its exchange rate controls and allows the funds to be repatriated.

Compliance with Treasury Limits

31. During the year the Council operated within the limits set out in the Treasury Strategy, Policy and Practice statements and the Treasury Management Prudential Indicators included in **Annex A.**

OPTIONS CONSIDERED

32. Treasury management operates within a dynamic environment and the Director of Finance & Corporate Services in consultation with the Treasury Advisors constantly evaluates the changing factors, formal strategy review meetings are held twice yearly. Decisions are made after considering all options and associated risks, taking forward the most beneficial option for the Council.

REASONS FOR RECOMMENDED OPTION

33. This report fulfils the Council's Financial Governance responsibilities and complies with the recommended CIPFA Codes of Practice.

IMPACT ON THE COUNCIL'S KEY PRIORITIES

34. The costs of treasury management activities form part of the Council's revenue budget, and decisions made now relating to long term borrowing (up to periods of 50 years) to fund the capital programme, will have implications

for future years. It is, therefore, important to have in place a strategy to minimise debt interest payments and the associated risk.

RISKS AND ASSUMPTIONS

35. By its very nature the treasury management function can expose the Council to certain risks, whether these are with respect to the interest rate achievable on new borrowings, or the risk associated with placing an investment with a third party. The Council have in place policies and strategies in order to manage and mitigate these risks.

36. The primary overriding aims are the protection of capital investment sums, and the maintenance of a long term, low fixed rate debt portfolio. In achieving this, the Council abides by the Code of Practice, and, reviews procedures to ensure best practice is implemented at all times to control the risk and achieve the aims.

LEGAL IMPLICATIONS

37. The Council's Treasury management activities are regulated by a variety of professional codes, statutes and guidance:-

    a. Chapter 1 Part 1 of the Local Government Act 2003 (the Act) provides the powers to borrow as well as providing controls and limits on such capital finance and accounts;

    b. the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, develops the controls and powers within the Act;

    c. the Regulations require local authorities to have regard to the code of practice entitled the Prudential Code for Capital Finance in Local Authorities published by CIPFA when determining their affordable borrowing limit;

    d. the Regulations also require local authorities to operate its overall treasury function having regard to the code of practice contained in the document entitled Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes published by CIPFA;

    e. the Regulations require local authorities, for each financial year, to make a minimum revenue provision, which they consider to be prudent, in respect of the financing of capital expenditure incurred in that and previous years.

38. The Treasury Management function is included in the Chief Financial Officer duties under Section 151 of the Local Government Act 1972 to administer the Council's financial affairs.

FINANCIAL IMPLICATIONS

39. The Council's budget for 2015/16 included the revenue costs of the treasury management activities. The outturn compared with the budget is shown below:-

	Budget 2015/16 £m	**Actuals 2015/16 £m**
External Borrowing	4.179	3.371
MRP	2.656	2.656
Other TM Costs	0.116	0.032
Total Cost	**6.951**	**6.059**
Income		
Investment Interest	-0.265	-0.502
Net Costs	**6.686**	**5.557**
HRA Borrowing	**11.768**	**11.768**

40. It can be seen from the above that the strategy pursued in relation to the Treasury Management activities achieved a saving of **£1.129m** in addition to the **£3.0m** savings provided at budget setting. The key contributor to the under spend was the strategic decision to be internally borrowed by £71m during the year (down from £109m due to the £28m pension deficit loan). By delaying the external borrowing we have been able to make significant interest savings against the original budget.

EQUALITY IMPLICATIONS

41. The Council must consider and have due regard to the three aims of the general equality duty. The treasury management budget in itself does not require a due regard statement; where required a due regard statement will be completed for individual budget decisions.

CONSULTATION

42. The Council regularly obtain advice from external specialist organisations in respect of its Treasury Management activities.

This report has significant implications in terms of the following:

Procurement		Crime & Disorder	
Human Resources		Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	
ICT		Capital Programme	x

BACKGROUND PAPERS

43. Capita Annual Treasury Management Report 2014/15.
CIPFA Treasury Management in the Public Services 2001. (Revised 2013)
The Council's Treasury Management Strategy 2014/15 – 2016/17.

REPORT AUTHOR & CONTRIBUTORS

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Steve Mawson
Chief Financial Officer & Assistant Director of Finance

ANNEX A

PRUDENTIAL INDICATORS 2015/16

	Estimate	Actual
Capital expenditure £m		
Non – HRA	102.957	64.979
HRA	44.39	42.227
Total	147.347	107.206
Capital Financing Requirement (CFR) as at 31/03/16 £m		
Non-HRA	270.98	247.387
HRA	260.00	260.451
Total	530.98	507.838
Incremental Impact of Capital Investment Decisions £		
For the Band D Council Tax	13.06	13.06
For Average Weekly Housing Rents	2.23	2.23
Ratio of Financing Costs to net revenue stream %		
Non-HRA	6.84%	6.84%
HRA	15.97%	15.97%
Authorised Limit for External Debt £m		
(this limit allows authorities to take borrowing In advance of need as required)	583.199	580.436
Operational Boundary for External Debt £m		
(this is a key management tool for in-year monitoring)	542.731	523.285
Actual External Debt as at 31st March 2016		
Upper Limit for Fixed Interest Rate Exposure	100%	100%
Upper Limit for Variable Rate Exposure	30%	30%

The following table shows the maturity profile of our existing external debt.

DMBC Debt Portfolio and Maturity Profile as at 31 March 2015				
	Upper Limit %	Lower Limit %	Actual %	Actual £'m
Under 12 Months	30	0	7.80	34.586
12 to 24 Months	50	0	2.75	12.187
24 Months to 5 Years	50	0	9.15	40.560
5 Years to 10 Years	75	0	7.03	31.161
10 Years to 20 Years	95	10	8.62	38.213
20 Years to 30 Years			10.40	46.093
30 Years and above			54.25	240.382
Total			100.00	443.182

The following table shows the individual investments as at 31st March 2015. The figures exclude the remaining £23.7k held at that time in escrow in Iceland, as this was not available to reinvest.

DMBC Investment Portfolio as at 31st March 2016		
Institution Name	**Maximum Limit £'m**	**Balance £'m**
Barclays Bank	10	10
Santander UK	10	10
Nationwide	10	5
Svenska Handelsbanken	20	16.9
Total		**41.9**

Council investments are made with institutions on our approved list. This is almost exclusively other banks and major financial institutions. The money invested is usually quite short term (up to 1 year) and is placed in order to gain some interest whilst we may have excess funds, following receipt of income/grants etc. until we need to pay those sums out.