Doncaster
Metropolitan Borough Council

Agenda Item No: 10
Date: 3rd March 2015

To the Chair and Members of the Council

THE TREASURY MANAGEMENT STRATEGY 2015/16 – 2018/19.

Relevant Cabinet Member(s)	Wards Affected	Key Decision
Mayor Jones	All	K1245

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. In 2015/16 the Treasury Management function is forecast to deliver £3m in savings. Key prudential indicators are contained in the body of the report with further detail in **Appendix A**.

2. Forecast interest rates for borrowing are expected to rise during the period of this strategy, however interest rates on investments are unlikely to reach the same level as borrowing rates and therefore the plan is to continue to defer some borrowing and to utilise internal funds to support the Capital Programme. The primary borrowing strategy will be to take longer term loans choosing maturity dates that either fit within gaps in, or at the end of the existing debt. Cheaper short term borrowing rates will continue to be used for part of the portfolio if value for money can be shown, or forecast interest rate increases move further away. More detail is provided in **paragraphs 25 – 57**.

3. The Investment Strategy will continue to manage the balances available and support cash flow requirements. Funding of capital and placing of investments are the two key elements of the strategy. The Investment Strategy is outlined in **paragraphs 65-69**.

4. A low risk policy has been established to protect the Council from losses due to financial institutions failing to repay investments when due .This policy allows the Council to spread the risk amongst a number of approved lenders, covered in detail in **paragraphs 70-78**.

5. The Council has to approve the local policy for approach to debt repayment (Minimum Revenue Provision – MRP) which is detailed in **Appendix B.** Following a review the selected methods are those which are most beneficial in each case and comply with Department for Communities and Local Government (DCLG) regulations.

6. The Council had an impaired deposit of £3m with Landsbanki, an Icelandic Bank, which is under receivership. Icelandic courts have supported the view that the Council would be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. There were a number of risks that could have impacted on the overall recovery and those risks escalated during 2014. The Council has therefore sold its outstanding claim and recovered a total of 92.87% against an original forecast of 79.5%. A percentage return that was higher than the majority of UK Local Authorities who had investments in Iceland.

   Further information is provided in **paragraphs 79-80.**

EXEMPT REPORT

7. Not Applicable.

RECOMMENDATIONS

8. Council is asked to approve the Treasury Management Strategy 2015/16 – 2018/19 report and the Prudential Indicators included.

9. With regard to the Minimum Revenue Provision (M.R.P.) Annual Policy Statement, Council is asked to approve the policy on 2015/16 – 2018/19 expenditure (shown in **Appendix B**):-

   i. that the "Capital Financing Requirement Method" is used for all expenditure that is supported through the formula grant system; and

   ii. that the "Asset Life Method", based on, "Equal Instalments" is used for all new assets being funded from Council resource.

10. Council is asked to approve the changes to the Council's Credit Risk Policy to incorporate non UK based financial institutions (see paragraph 70 for details).

11. Council is asked to note the current position regarding the Icelandic deposit.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

12. This Strategy ensures that the Council's Capital Programme is affordable and takes advantage of historically low interest rates to bring stability and long term savings to 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

13. 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.

14. The second main function of the treasury management service 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.

15. 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".*

16. In order 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.

17. The suggested strategy for 2015/16 – 2018/19 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 (formerly known as Sector Treasury Services)". The strategy covers two main areas:

Capital Issues

a) the Capital Programme and the Prudential Indicators;

b) the minimum revenue provision (MRP) strategy.

Treasury Management Issues

a) the current treasury position;

b) treasury indicators which will 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.

The Capital Programme Prudential Indicators 2015/16 – 2018/19

18. The Council's Capital Programme is one of the key drivers of treasury management activity. The Prudential Indicators demonstrate that the Capital Programme is affordable.

Capital Expenditure

19. The first prudential indicator is the Council's Capital Programme including existing expenditure commitments, and those included in the 2015/16-2018/19 budget cycle. Borrowing is part of the package of resources available in each financial year to meet the additional financing requirement. This is detailed in **Appendix A, (Indicators 1 and 2).**

Annual borrowing requirements to fund the Capital Programme

£M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Annual financing requirement (borrowing)	**5.881**	**22.315**	**32.925**	**15.049**	**12.923**	**-0.387**

The Council's Total Capital Financing Requirement (CFR)

20. 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.

Capital Financing Requirement

£M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
CFR – GF	247.801	247.602	268.212	272.835	276.291	266.865
CFR – HRA	250.276	260.933	264.395	265.349	266.459	266.459
Total CFR	**498.077**	**508.535**	**532.607**	**538.184**	**542.750**	**533.324**
Movement in CFR	**-2.468**	**10.458**	**24.072**	**5.577**	**4.566**	**-9.426**

Core funds and expected investment balances

21. The Council is forecast to have borrowed £443.596m as at 31/03/15 against a CFR (borrowing requirement) of £508.535m which means that the Councilis currently forecast to be under borrowed (see paragraph 35) by £64.940m. This is a result of a strategic position taken to minimise investment risk and reduce borrowing interest costs. This is a short term strategy which may need to be reviewed if interest rates begin to rise faster or higher than currently forecast.

22. 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 more than offset by the interest savings generated by not taking on the full borrowing requirement.

Affordability Prudential Indicators

23. 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 6.84% and for the Housing Revenue Account (HRA) 15.97%.

24. The indicative impact of financing the Capital Programme, on Council Tax band D properties in 2015/16 is £13.06. The impact on housing rents for 2015/16 is £2.23. 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 2015/16 - 2018/19.

Borrowing Strategy

25. 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 2015/16 is forecast to be £443.596m with an additional estimated borrowing in year of £32.925m re Capital Programme and £43.880M to replace loans expiring during the year. It is planned that all the loans expiring will be reborrowed unless additional resources become available.The Council's current Loans and Investment portfolios are shown in **Appendix C**.

26. The borrowing strategy is a change from the recent successful strategy that is forecast to deliver interest savings of £4.481m during 2014/15. The savings are generated in two ways, being under borrowed (see paragraph 35 below) and borrowing short term (see paragraph 38). As interest rates are forecast to increase over the term of this strategy we propose to lock into the historically low long term interest rates. Borrowing will be taken to fill gaps in the existing maturity profile, unless value for money can be seen from the 40 years+ 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.

27. The strategy is forecast to deliver the following interest savings each year.

Financial Year	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Recurrent saving £	1.5m	1.75m	1.75m	1.75m
One off saving £	1.5m	1.5m	tbc	tbc

28. The savings, which are very sensitive to a movement in interest rates, assume that the underborrowing will continue. The revised strategy will lock the council into historic low interest rates and ensure a stable cost of funding for many years. There remains risks associated with the under borrowing, but these will probably be eroded over time through the application of MRP.

29. 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 £64.940m (under borrowed amount) from the Public Works Loan Board (PWLB) over 5 years interest would cost £1.253m per annum and over 25 years to 50 years it would cost £2.097m per annum.

30. The strategy also transfers £60.281m of short term debt (loans that mature within the next 5 years) onto long term debt. 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 during the strategy term. By switching from short to long term we minimise rate risk and stabilise interest costs, at an advantageous point in the interest rate cycle.

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 CFR. This helps to ensure that over the medium term borrowing is not undertaken for revenue purposes.

32. The Director of Finance and Corporate Services 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 2015 is

expected to be £443.596m. The borrowing need (total CFR) is £508.535m which highlights that the Council will be under borrowed by £64.940m. (see paragraph 35 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 £M	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
CFR – GF	247.801	247.602	268.212	272.835	276.291	266.865
External Borrowing - GF	168.174	205.048	229.502	232.295	233.886	233.886
Under Borrowed Position	79.627	42.554	38.710	40.540	42.405	32.979
Ave. Interest Rate	3.87%	3.48%	3.81%	4.51%	4.94%	5.08%
HRA £M	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
CFR – HRA	250.276	260.933	264.395	265.349	266.459	266.459
External Borrowing - HRA	228.073	238.548	242.009	242.963	244.063	244.063
Under Borrowed Position	22.202	22.385	22.386	22.386	22.396	22.396
Average Interest Rate	5.34%	5.07%	4.97%	5.09%	5.21%	5.21%

33. All borrowing costs used to be shown against General Fund (GF). However, for clarity and transparency purposes, 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 drop slightly in 2014/15 before increasing again from 2015/16. The average interest rate on HRA debt is higher and more stable than the GF debt as the pool contains a higher proportion of older debt taken out at higher interest rates. But it can be seen that the gap narrows as more, longer term debt, is added to the GF pool.

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 and financial institution risk is high.

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 has made 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. For this reason we are looking to take advantage of the historic low long term rates, for future borrowing, which will also provide more stability to the interest budget. We are balancing long term stable interest costs against short term interest savings.

40. It is likely that the Municipal Bond Agency (MBA), currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate, however, it is not our intention to become a member of the MBA.

Risk Strategy

41. 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.

42. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2015/16 treasury operations. The Director of Finance and Corporate Services 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.

Transfer of Loans between Debt Pools

43. 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 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

44. 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

45. 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

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

Operational Boundary £M	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2017/18 Estimate**
CFR/Borrowing	498.077	508.535	532.607	538.184	542.750	533.324
Other long-term liabilities – ‘Met. Debt’	12.750	11.750	10.750	9.750	8.750	7.750
Total	**510.827**	**520.285**	**543.357**	**547.934**	**551.500**	**541.074**

The Authorised Limit for external borrowing

47. 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.

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.

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.

Authorised limit £m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	498.077	508.535	532.607	538.184	542.750	533.324
Other long-term liabilities – 'Met. Debt'	12.750	11.750	10.750	9.750	8.750	7.750
Theoretical amount that could be Borrowed in advance re future years unfinanced capital expenditure	70.289	60.897	27.585	12.536	-0.387	-0.387
Total	**581.116**	**581.182**	**570.942**	**560.470**	**551.113**	**540.687**
HRA Debt Limit	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**

Separately, the Council is also limited to a maximum HRA CFR through the self-financing regime. This is called the HRA debt limit and equates to £269.904M through to the end of 2018/19.

Prospects for Interest Rates

48. The Council has 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.

49. 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 long term loans to minimise interest rate risk. Cheaper short term borrowing for up to 5 years to minimise the debit interest costs will only be considered if it does not increase our interest rate risk. Key factors which will continue to have a major impact on the level of interest rates during 2015/16 will be the resolution of the ongoing Eurozone Debt Crisis and the global rate of growth. Current indications are that recovery for the global economy will be long and drawn out, with many bumps along the way, which is expected to minimise any rate increases during 2015-16. Our target borrowing rate for 2015/16 is 5.0%.

50. 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 £439k.

Treasury Management Limits on activity

51. 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

52. 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. <u>At present DMBC do not borrow in advance.</u>

53. 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 (CFR) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need.

54. 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

55. 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).

56. 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.

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

Annual Investment Strategy

Investment Policy

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

59. In order to minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of financial institutions for inclusion on the lending list. The methodology used to create the financial institutions 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.

60. 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.

61. 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.

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

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

64. 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.

Investment Strategy

65. 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).

66. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2016. Bank Rate forecasts for financial year ends (March) are:

Financial Year	Rate
2014/15	0.50%
2015/16	0.75%
2016/17	1.25%
2017/18	2.00%

67. 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 4 years are as above. These rates have been used to estimate investment interest during the strategy term.

68. There is a risk that rates will increase later than forecast if economic growth remains weak for longer than expected. However, should the pace of growth 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.

69. The balances generated through the Council's cash flow will be invested in call accounts, notice accounts, money market funds, Treasury Bills and short-dated deposits (overnight to 12 months) in order to benefit from the compounding of interest. In addition core investment balances will be identified for investment in longer term, low risk investments such as UK Government Gilts. A full list of specified and non specified investments is in **Appendix E**.

Credit Risk Policy

70. **The Council's previous strategy recommends that the Council lend only to U.K. based financial institutions. This reflected the U.K. Government's commitment to maintaining a stable financial environment, which has been demonstrated by bank nationalisations and banking support packages. Recent legislation has reduced the possibility of future banking nationalisations and the time is now right to relax our restriction, which will give the Council access to financial institutions of an equal or better standing than the UK based ones. Only countries with credit ratings equal to or better than the UK will be included in the Council's counterparty list, which will continue to be regularly reviewed.**

71. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch (or equivalent). 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 Director of Finance and Corporate Services. Not all counterparties will be active in the market at all times, therefore it is important to have a good spread of available organisations.

72. The Council applies the credit risk assessment service (details at **Appendix E**) provided by Capita Asset Services, Treasury Solutions.

73. 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:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select financial institutions from only the most creditworthy countries.

74. 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.

Colour	**Term**	**Amount £**
Yellow	5 Years	30m
Purple	2 Years	30m
*Blue	1 Year	30m

Orange	1 Year	20m
Red	6 Months	10m
Green	100 Days	5m
No Colour	Not to be used	0

(* Blue only applies to nationalised or semi nationalised UK Banks)

75. 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.

76. Typically the minimum credit ratings criteria the Council use will be Fitch's counterparty ratings. 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.

77. The following financial institutions do not meet the above criteria, however they are proposed to be included in our financial institutions list for the following reasons:-

Co-operative Bank – This is the Council's banker. The Council has a contract until 31/03/18 following an open tender for banking services. The bank has since announced their intention to withdraw from the Local Authority market, but have also stressed that they will honour its existing contracts. Plans will be put in place to start the process of moving banks during 2015/16. The whole process is likely to take at least 12 months. In the meantime to allow for the day to day management of the Council's cash flow the Co-operative Bank will be retained on the list of financial institutions even if ratings are below the above minimum criteria. The maximum investment limit for this financial institution is £11M. Once the transfer is complete the Co-operative Bank will be removed from our lending list.

Debt Management Office – This is an investment facility which forms part of the U.K. Government, and, hence, is 100% unconditionally guaranteed. Given this, the maximum investment limit for the facility is recommended to be £100M, which is forecast to accommodate all the investment balance if required during 2015/16. It should be noted that the interest rates payable on this account are significantly lower than those to be obtained in the money market.

Other Local Authorities – These are generally not credit rated by the three credit rating agencies. A maximum of £10M will be invested with other local authorities. Any such investment will be reported to the Head of Financial Management and the Director of Finance and Corporate Services.

The above limits are the maximum and lower limits may be used on an operational basis subject to the Director of Finance and Corporate Services.

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

- 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.
- 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.

Icelandic Bank Investments

79. The Council had a deposit of £3m with Landsbanki, an icelandic bank, which is under receivership. The Council submitted a total claim of £3,377,456.09 to the Landsbanki Winding Up Board. This represents the total amount of principal plus interest for the period up to the date the bank went into receivership. The claim was subsequently reduced as a result of legislation, to £3,031,702. Icelandic courts have supported the view that the Council will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The latest estimate was that we would recover 100% of our original deposit, subject to exchange rate and other risks. As the actual repayment was expected to be partially in foreign currency assets, the exchange rate risk would be managed by converting the foreign currency receipts at spot rate on the day of receipt. Over time we had recovered £1,424,589 and it was anticipated that the remainder of the claim would be received by December 2019, however this was subject to a number of risks which escalated during 2014. The majority of UK local authorities sold their claims for 92% in January 2014, which was a lower return than we were looking for. We therefore chose not to sell at that time.

80. The Council continued to review all options available to minimise further risks, which could have increased the losses on its deposit and a sale of its claim at 92.87% was achieved in October 2014. This is full and final settlement. However, we do still have £24,422 held in Iceland awaiting the lifting of currency controls.

Policy on the use of external service providers

81. The Council currently has a contract with Capita Asset Services, Treasury Solutions as its external treasury management advisors until December 2016.

82. 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.

83. 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.

84. 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

85. Continuation of existing strategy of borrowing short term. But this would expose us to needing to switch the borrowing to longer term loans after long term rates had increased.

86. Borrow sufficient funds to clear the under borrowed position. This would come at an annual cost of between £1.253m and £2.097m, at a time when budgets are already under pressure.

REASONS FOR RECOMMENDED OPTION

87. The strategy provides a good balance between borrowing long term to stabilise the interest costs at a time when long term rates are historically low, and still producing savings by being underborrowed. This also minimises the risk of losses from failed investments.

IMPACT ON THE COUNCIL'S KEY PRIORITIES

88.

	Priority	**Implications**
	We will support a strong economy where businesses can locate, grow and employ local people. • *Mayoral Priority: Creating Jobs and Housing* • *Mayoral Priority: Be a strong voice for our veterans* • *Mayoral Priority: Protecting Doncaster's vital services*	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.

	We will help people to live safe, healthy, active and independent lives. • *Mayoral Priority:* Safeguarding our Communities • *Mayoral Priority:* Bringing down the cost of living	None.
	We will make Doncaster a better place to live, with cleaner, more sustainable communities. • *Mayoral Priority: Creating Jobs and Housing* • *Mayoral Priority: Safeguarding our Communities* • *Mayoral Priority: Bringing down the cost of living*	None.
	We will support all families to thrive. • *Mayoral Priority: Protecting Doncaster's vital services*	None.
	We will deliver modern value for money services.	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.
	We will provide strong leadership and governance, working in partnership.	In order 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.

RISKS AND ASSUMPTIONS

89. 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 Director of Finance & Corporate Services and the Council's advisors will continually monitor the environment and act as necessary to limit risk and achieve best value for the Council.

90. 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.

91. This report setting the M.R.P. 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.	High	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 when funding required due to adverse market conditions and/or budgetary constraints	Low	High	Risk is mitigated by maintaining 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 70 – 78 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

92. 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.

93. 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

94. The budgeted costs of the debt charges for 2015/16 after contributing £3m towards the Council’s savings target are as follows:-

	General Fund £'M	GF Borrowing £'M	HRA £'M	HRA Borrowing £'M
Costs				
External Borrowing	8.15	3.59	11.97	11.97
Premium Charges	0.09			
M.R.P.	7.29			
GF Prudential Borrowing	-3.59			
Total Costs	**11.94**		**11.97**	**11.97**
Income				
Investment Interest	-0.27			
Budget	**11.67**			

Note that the funding for GF prudential borrowing is included in service budgets. The HRA interest costs are included in the HRA budget.

95. The budgeted costs of the debt charges for 2016/17 after contributing £3.25m towards the Council's savings target are as follows:-

	General Fund £'M	GF Borrowing £'M	HRA £'M	HRA Borrowing £'M
Costs				
External Borrowing	9.45	5.07	12.33	12.33
Premium Charges	0.09			
M.R.P.	7.01			
GF Prudential Borrowing	-5.07			
Total Costs	**11.48**		**12.33**	**12.33**
Income				
Investment Interest	-0.50			
Budget	**10.98**			

Note that the funding for GF prudential borrowing is included in service budgets. The HRA interest costs are included in the HRA budget.

EQUALITY IMPLICATIONS

96. The Council must consider and have due regard to the three aims of the general equality duty, outlined below when developing and implementing the Treasury Management Strategy.

97. The Public Sector Equality Duty (PSED) created by the Equality Act 2010 came into force in April 2011. The new Equality Duty requires public bodies to have "due regard" to the need to:-
    a. Eliminate discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010;
    b. Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
    c. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

98. The protected groups are age, civil partnership and marriage, disability, gender, gender reassignment, pregnancy and maternity, race, religion or belief, and sexual orientation.

99. 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.

100. In addition the Council will ensure it makes fair and informed financial decisions, demonstrating its commitment to improving outcomes for the most vulnerable groups of people living in Doncaster. The weight given to the general duty will depend on how that area of work affects discrimination, equality of opportunity and good relations. For example, projects involving social care or community safety are likely to be more relevant and have greater impact on equality than those on waste disposal. The Council uses a simple due regard process to ensure due regard is considered and to support a transparent, effective process that is accountable to users and residents. Amongst others, the "due regard" will be informed by:

    a. <u>Establishing the key equality issues across Doncaster (Equality Analysis)</u> – Our Equality and Inclusion Plan 2014-2017 has been developed alongside our financial planning process and includes a significant analysis of equality information to identify the key equality issues across Doncaster. We will use the equality information to inform the developments of individual projects;

    b. <u>Consultation</u> - individual projects require specific approval before committing and incurring spend. Through these approvals the project specific equality implications will be assessed and consultation completed as required;

    c. <u>Prioritisation and Planning</u> – the projects in the Capital Programme have been assessed as priorities for Doncaster's residents and the Council. Due to the number and range of projects it is not possible to discuss the individual equality considerations in this report, but the Council is committed to assessing a project's impact to ensure fairness and equality.

CONSULTATION

101. The Council obtain 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.

102. Consultation has taken place with key financial managers and the Council Executive.

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 2011). The Prudential Code for Capital Finance in Local Authorities (Revised 2011).

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 £m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Adults Health & Wellbeing	3.442	9.131	5.055	3.310	3.244	1.215
Finance & Corporate	1.441	6.006	13.155	12.195	12.093	0.636
Learning & Opportunity	9.031	12.942	11.820	5.770	3.960	5.950
Regeneration & Environment	32.137	37.392	72.927	47.819	27.642	16.539
Non-HRA	**46.051**	**65.471**	**102.957**	**69.094**	**46.939**	**24.340**
HRA	**35.260**	**52.247**	**44.390**	**35.044**	**32.410**	**30.660**
Total	**81.311**	**117.718**	**147.347**	**104.138**	**79.349**	**55.000**

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 £M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	46.051	65.471	102.957	69.094	46.939	24.340
HRA	35.260	52.247	44.390	35.044	32.410	30.660
Total	**81.311**	**117.718**	**147.347**	**104.138**	**79.349**	**55.000**
Financed by:						
Capital receipts	3.136	6.587	13.476	5.701	7.348	4.451
Capital grants	38.475	50.414	60.883	49.420	30.728	21.529
Capital reserves	0.437	1.127	1.373	0.319	0.000	0.039
Revenue (note 1)	32.921	39.467	40.253	33.649	31.300	30.660
Unfinanced b/fwd.	-9.771	-7.997*	-5.805	-4.242	-4.242	-1.292
Unfinanced c/fwd.	10.232*	5.805	4.242	4.242	1.292	0.000
Net financing requirement (borrowing)	**5.881**	**22.315**	**32.925**	**15.049**	**12.923**	**-0.387**

Note 1 – the significant element of which is Housing rental income

*the change in unfinanced position relates to the amount expected to be financed for Digital Region. This figure changed between year end (basis for b/f figure) and quarter 3 (basis for c/f figure). It represents a timing difference.

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.

£M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
CFR – GF	247.801	247.602	268.232	272.835	276.291	266.865
CFR – HRA	250.276	260.933	264.395	265.349	266.459	266.459
Total CFR	**498.077**	**508.535**	**532.607**	**538.184**	**542.750**	**533.324**
Movement in CFR	**-2.468**	**10.458**	**24.072**	**5.577**	**4.566**	**-9.426**

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 below 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 £m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Reserves balances	84.582	84.582	84.582	84.582	84.582	84.582
Capital receipts	3.136	8.451	9.193	4.271	6.886	4.015
Provisions	28.287	28.287	28.287	28.287	28.287	28.287
Other	16.227	16.227	16.227	16.227	16.227	16.227
Total core funds	**132.232**	**137.547**	**138.289**	**133.367**	**135.982**	**133.111**
Working capital	12.384	12.384	12.384	12.384	12.384	12.384
Under/over borrowing	101.829	61.940	59.096	60.926	62.800	53.374
Expected investments	**21**	**40**	**40**	**40**	**40**	**40**

Indicators 6 & 7

This indicator identifies the trend in the cost of capital. This shows that the General Fund borrowing cost is below 8.0% and the HRA is below 16.2%.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	5.43	5.61	6.84	7.65	7.85	7.94
HRA	16.17	15.81	15.97	16.04	16.08	15.72

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.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D	1.12	4.95	13.06	7.25	7.24	0.08

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.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Weekly housing rent levels	2.77	7.27	2.23	0.61	0.70	0.00

Indicator 10 - Current Portfolio Position

The Council's treasury portfolio position at 31 March 2014, 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.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External borrowing						
Borrowing at 1 April	396.248	396.248	446.596	473.511	477.258	479.949
Expected change in borrowing	0	50.348	26.915	3.747	2.691	0
Actual borrowing at 31 March	**396.248**	**446.596**	**473.511**	**477.258**	**479.949**	**479.949**
CFR – the borrowing need	**498.077**	**508.535**	**532.607**	**538.184**	**542.750**	**533.324**
Under / (over) borrowing	**101.829**	**61.940**	**59.096**	**60.926**	**62.800**	**53.374**
Other long-term liabilities – 'Met. Debt'	12.750	11.750	10.750	9.750	8.750	7.750
Expected change in 'Met. Debt'	0	-1	-1	-1	-1	-1
Investments						
Total Investments at 31 March	21	40	40	40	40	40
Investment Change	0	19	0	0	0	0
Net borrowing	**396.227**	**446.556**	**473.471**	**477.218**	**479.909**	**479.909**

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 £M	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
CFR/Borrowing	498.077	508.535	532.607	538.184	542.750	533.324
Other long-term liabilities – 'Met. Debt'	12.750	11.750	10.750	9.750	8.750	7.750
Total	**510.827**	**520.285**	**543.357**	**547.934**	**551.500**	**541.074**

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 £m	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Borrowing	498.077	508.535	532.607	538.184	542.750	533.324
Other long-term liabilities – 'Met. Debt'	12.750	11.750	10.750	9.750	8.750	7.750
Theoretical amount that could be Borrowed in advance re future years unfinanced capital expenditure	70.289	60.897	27.585	12.536	-0.387	-0.387
Total	**581.116**	**581.182**	**570.942**	**560.470**	**551.113**	**540.687**
HRA Debt Limit	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**	**269.904**

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		2014/15	2015/16	2016/17	2017/18	2018/19
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 2014/15						
			Amount £m	**%**	**Lower**	**Upper**
Under 12 months			40.698	9.17%	0%	30%
12 months to 2 years			60.281	13.59%	0%	50%
2 years to 5 years			72.461	16.33%	0%	50%
5 years to 10 years			36.161	8.15%	0%	75%
10 years and above			233.995	52.76%	10%	95%

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	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£m 20	£m 20	£m 20	£m 20	£m 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.

MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). There is no requirement to apply MRP to the HRA.

CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each financial year. A variety of options are provided to council's, so long as there is a prudent provision.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Either

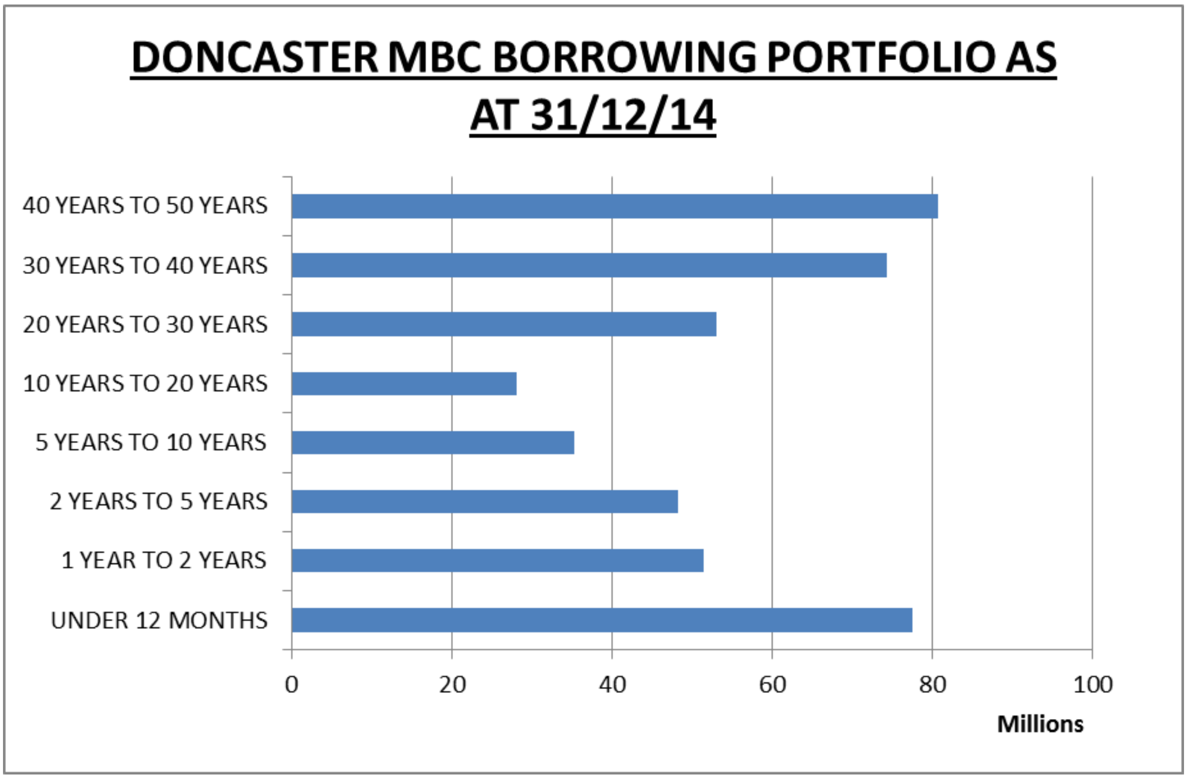
- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1); or
- **Based on CFR** – MRP will be based on the CFR (option 2);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year. The percentage applied is under review and may be changed during the term of the Strategy.

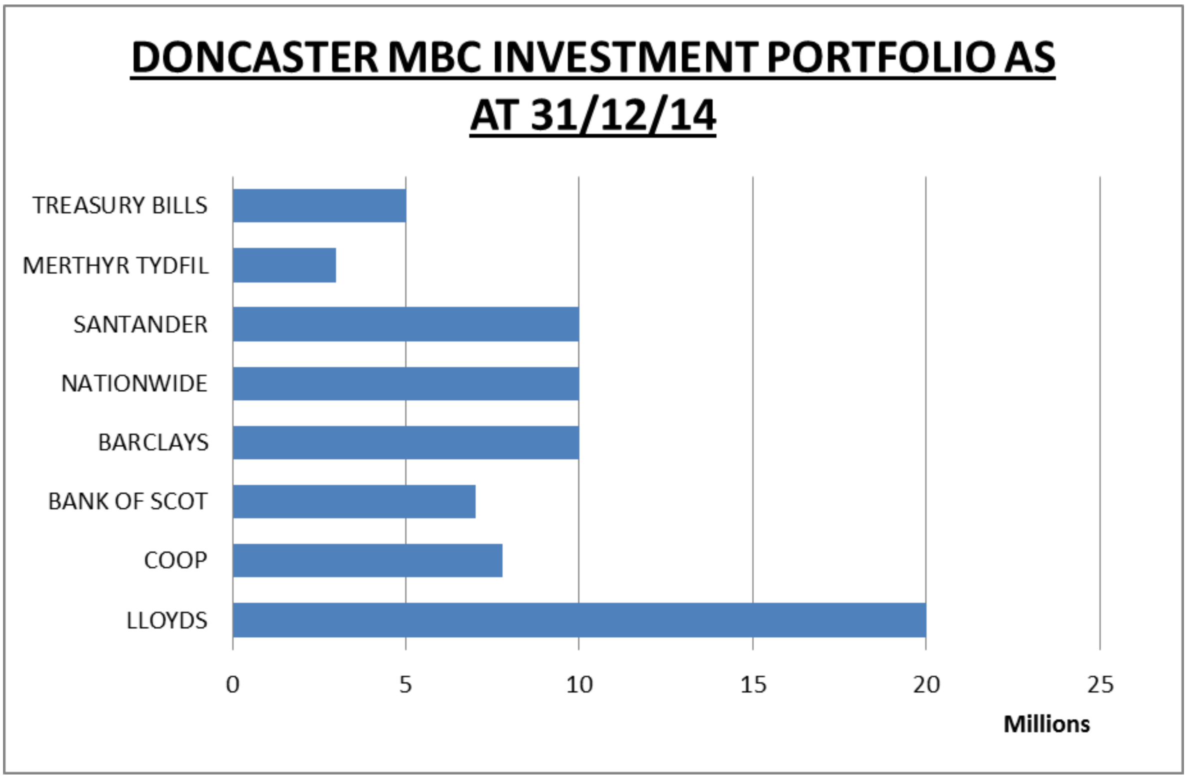
From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.



Total loans £448M



Total investments £72.8M (excluding Iceland balance of £24k)

APPENDIX D

Interest Rate Forecasts

Bank Rate	**Now**	**Mar 2015**	**Mar 2016**	**Mar 2017**	**Mar 2018**
Actual Feb15	0.50%	-	-	-	-
Capita Asset Services view.	0.50%	0.50%	0.75%	1.25%	2.00%
Capital Economics(CE)	0.50%	0.50%	1.00%	1.25%	-
5Yr PWLB Rate					
Actual Feb15	2.00%	-	-	-	-
Capita Asset Services.	2.00%	2.10%	2.60%	3.10%	3.50%
CE	2.00%	2.20%	3.10%	3.40%	-
10Yr PWLB Rate					
Actual Feb15	2.50%	-	-	-	-
Capita Asset Services.	2.50%	2.70%	3.20%	3.70%	4.10%
CE	2.50%	2.80%	3.60%	3.80%	-
25Yr PWLB Rate					
Actual Feb15	3.20%	-	-	-	-
Capita Asset Services.	3.20%	3.30%	3.90%	4.40%	4.70%
CE	3.20%	3.25%	3.95%	4.25%	-
50Yr PWLB Rate					
Actual Feb15	3.20%	-	-	-	-
Capita Asset Services.	3.20%	3.30%	3.90%	4.40%	4.70%
CE	3.20%	3.30%	4.00%	4.30%	-

APPENDIX E

Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

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.

	*** Minimum credit criteria / colour band**	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
***DMADF – UK Government**	N/A	100%	6 months
UK Government gilts	UK sovereign rating	100%	1 year
UK Government Treasury blls	UK sovereign rating	100%	1 year
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	30%	6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Certificates of Deposit (CD's) or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	30%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Gilt funds	UK sovereign rating	30%	

- *Debt Management Account Deposit Facility
- # Certificates of Deposit

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of 30% 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:

	*** Minimum credit criteria / colour band**	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
UK Government gilts	AA	30%	5 years
Bonds issued by multilateral development banks	AAA	30%	5 years
Local authorities	N/A	£10M (maximum of £5M per authority)	5 years
Term deposits with banks part nationalised by the UK Government	Blue	30%	Up to 5 years
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	30%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
# Certificates of Deposit (CD's) or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	30%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Pooled property funds – The use of these instruments can be deemed to be 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.		Subject to authorisation of Director of Finance & Corporate Services.	

- *Debt Management Account Deposit Facility
- # Certificates of Deposit

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.

The Monitoring of Investment Financial institutions - The credit rating of financial institutions will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services, Treasury Solutions as and when ratings change, and financial institutions are checked. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance and Corporate Services, and if required new financial institutions which meet the criteria will be added to the list. The current list of qualifying organisations is below.

List of Institutions qualifying for Council Investment as at 31/12/14

Institution Name	**Colour**	**Limit £'M**
Lloyds Banking Group	BLUE	30 MAX
Bank of Scotland PLC (part of Lloyds Banking Group)	BLUE	30
Lloyds Bank PLC (part of Lloyds Banking Group)	BLUE	30
Royal Bank of Scotland Group	BLUE	30 MAX
Royal Bank of Scotland (part of RBS Group)	BLUE	30
National Westminster Bank (part of RBS Group)	BLUE	30
Barclays	RED	10
Nationwide	RED	10
Santander UK	RED	10
HSBC	ORANGE	20
Local Authorities	N/A	10
Debt Management Account	N/A	100
Co-operative Bank*	No Colour	11

*Co-operative Bank does not meet our minimum criteria but are included on the list as our bankers.

Note: Additional Banks will be added to the list as and when they meet the Council's minimum criteria, subject to approval by the Director of Finance and Corporate Services.

Approved Countries for investments

As stated above, the Council applies the credit risk assessment service provided by Capita Asset Services, Treasury Solutions and will only invest in countries with an equal or better credit rating than the UK. Currently those countries are:-

AAA	AA+
Australia	UK
Canada	Hong Kong
Denmark	
Finland	
Germany	
Luxembourg	
Netherlands	
Norway	
Singapore	
Sweden	
Switzerland	
USA	