Doncaster
Metropolitan Borough Council

1st March 2016

To the Chair and Members of the Council

THE TREASURY MANAGEMENT STRATEGY 2016/17 – 2019/20.

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

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 2016/17 the Treasury Management function is forecast to deliver £3.25m 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 gently during the period of this strategy, however interest rates on investments are unlikely to reach the same level as borrowing rates and therefore the strategy is to continue to defer some borrowing and to utilise internal funds to support the Capital Programme. As the borrowing rates are forecast to only rise gently over the next 4 years, the primary borrowing strategy will be to take cheaper short term loans to maximise interest rate savings over the next couple of years. More detail on the borrowing strategy is provided in **paragraphs 30 – 61**.

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 62-74**.

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 75-82**.

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.

EXEMPT REPORT

6. Not Applicable.

RECOMMENDATIONS

7. Council is asked to approve the Treasury Management Strategy 2016/17 – 2019/2020 report and the Prudential Indicators included.
8. Council is asked to approve the changes to the Minimum Revenue Provision (MRP) policy from 2015/16 as set out in paragraphs 22 - 29 (details in **Appendix B**)

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

9. 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

10. 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.
11. 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.
12. 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".*
13. 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.

14. The suggested strategy for 2016/17 – 2019/20 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) 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 2016/17 – 2019/20

15. 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

16. The first prudential indicator is the Council's Capital Programme including existing expenditure commitments, and those included in the 2016/17-2019/20 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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Annual financing requirement (borrowing)	**18.644**	**22.390**	**12.107**	**11.730**	**8.856**	**10.856**

The Council's Total Capital Financing Requirement (CFR)

17. 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.

18. The CFR balance within the report does not reflect the changes proposed to the MRP policy (see **Appendix B** paragraph 8.1) , figures in relation to the waste PFI long term liability are also not included this is because the waste PFI liability has not yet been confirmed, CFR figures will be updated accordingly in due course.

Capital Financing Requirement.

£M	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR – GF	247.387	257.164	259.474	259.737	259.597	263.516
CFR – HRA	260.451	264.223	265.052	267.395	267.395	267.395
Total CFR	**507.838**	**521.387**	**524.526**	**527.132**	**526.992**	**530.911**
Movement in CFR	**7.293**	**13.549**	**3.139**	**2.606**	**-0.140**	**3.919**

Core funds and expected investment balances

19. The Council is forecast to have borrowed £443.184m as at 31/03/16 against a CFR (borrowing requirement) of £521.387m which means that the Council is currently forecast to be under borrowed (see paragraph 41) by £78.203m. This minimises interest costs, but may not be sustainable long term.

20. 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

21. 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 6.00% and for the Housing Revenue Account (HRA) 15.87%. The indicative impact of financing the Capital Programme, on Council Tax band D properties in 2016/17 is £7.25. The impact on housing rents for 2016/17 is £0.61. 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 2016/17 -2019/20.

The Minimum Revenue Provision (MRP)

22. 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. The guidance on MRP allows different options for the calculation of MRP as below:

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

23. The Council currently uses the regulatory method of calculation on its pre 2007/08 borrowing (Option 1) and the asset life, equal instalment method (Option 3a) for calculating MRP on any new borrowing from 2008 onwards. The Authority is now seeking to amend the MRP policy so the asset life annuity method (Option 3b) is also utilised on the pre 2007/08 debt and on debt relating to the Civic and Cultural Quarter (CCQ). A review has been undertaken to calculate the benefits of moving towards the Annuity method of calculation.

24. On pre 2007/08 debt it is currently our policy to charge MRP based on a 4% reducing balance method. As it is not possible to see which of the Authority's assets have been funded from this historic borrowing we have considered the average asset life of our asset portfolio and feel that a life of 50 years (approximately 2%) is an appropriate life to use when calculating the MRP charge using the Asset Life method of calculation.

25. In addition, to ensure that the debt is eventually provided for, it is recommended that instead of using a reducing balance (Regulatory) method to calculate MRP we change to an asset life method of calculation. Both the equal instalment (3a) and annuity method (3b) have been considered. The annuity method (Option 3b) is our preferred option for MRP on the pre-2007/08 debt and the MRP on the debt relating to the Civic and Cultural Quarter. It produces an annual release of funds in the earlier years but produces a greater charge in later years. This method is a prudent basis for providing MRP for assets that provide a steady flow of benefits over their useful life. This is commonly used for regeneration schemes where economic benefits increase over future years. A significant part of our pre 2007/08 debt is related to such economic regeneration schemes although it is difficult to tie to individual assets. For all other un-supported expenditure incurred after 2007/08 Option 3a - the asset life method will be used.

26. We have used a 4% discount rate for future value of cash flows to reflect the time value of money. The rate used is based on the cost of capital, risks and the opportunity cost of the capital. Any change to this discount rate will affect

the charges.

27. We propose to implement the change from 2015/16 onwards.

28. The change of policy would mean in 15/16 £3.732m budget in relation to the Pre 2007/08 debt and £0.665m in relation to the CCQ debt will be removed from the 2015/16 MRP budgets and provide one-off funding in this financial year. As result of back-dating the calculation, it would generate an amount of £48.7m MRP that has been over-provided in previous years (£45.3m in relation to the re-profiling of pre 2007/08 MRP and £3.4m relating to CCQ).

29. An extract from the full MRP report showing more detail is attached as **Appendix B.**

Borrowing Strategy

30. 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 2016/17 is forecast to be £443.184m with an additional estimated borrowing in year of £12.107m re Capital Programme and £23.190M 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**.

31. The borrowing strategy is a return to the recent successful strategy that has generated large interest savings. The savings are generated in two ways, being under borrowed (see paragraph 40 below) and borrowing short term (see paragraph 43). As interest rates are forecast to increase gently over the term of this strategy we propose to return to borrowing 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.

32. The strategy is forecast to deliver £1.75m ongoing savings and £1.5m one off saving for 2016/17.

33. 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.

34. 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 £78.20m (under borrowed amount) from the Public Works Loan Board (PWLB) over 5 years interest would cost £2.495m per annum and over 25 years to 50 years it would cost £2.354m per annum. (The rate for borrowing over 50 years is currently lower than for 25 years).

35. 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.

Current Portfolio Position

36. 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.

37. 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 2016 is expected to be £443.184m. The borrowing need (total CFR) is £521.387m which highlights that the Council will be under borrowed by £78.203m. (see paragraph 40 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	**2014/15 Actual**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
CFR – GF	247,387	257,164	259,474	259,737	259,597	263,516
External Borrowing – GF	200,037	201,684	213,103	211,190	220,046	217,046
Under Borrowed Position	**47,350**	**55,479**	**46,372**	**48,547**	**39,552**	**46,470**
Ave. Interest Rate	3.49%	3.61%	3.78%	3.96%	4.08%	4.25%
HRA £M	**2014/15 Actual**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
CFR – HRA	260,451	264,223	265,052	267,395	267,395	267,395
External Borrowing – HRA	236,546	241,500	242,329	244,666	244,666	242,324
Under Borrowed Position	**23,905**	**22,723**	**22,723**	**22,728**	**22,728**	**25,071**
Average Interest Rate	4.62%	4.92%	4.91%	4.90%	4.89%	5.02%

38. 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 rise slightly between 2016/17 and 2019/20. 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.

39. 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

40. 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.

41. 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.

42. 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

43. 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.

44. 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

45. 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.

46. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2016/17 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

47. 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

48. 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

49. 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

50. 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).

Operational Boundary £M	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR/Borrowing	507.838	521.387	524.526	527.132	526.992	530.911
Other long-term liabilities – ‘Met. Debt’	11.406	10.406	9.406	8.406	7.406	6.406
Total	**519.244**	**531.793**	**533.932**	**535.538**	**534.398**	**537.317**

The Authorised Limit for external borrowing

51. 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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	507.838	521.387	524.526	527.132	526.992	530.911
Other long-term liabilities – ‘Met. Debt’	11.406	10.406	9.406	8.406	7.406	6.406
Theoretical amount that could be Borrowed in advance re future years unfinanced capital expenditure	46.227	32.693	31.442	19.712	10.856	0.000
Total	**565.471**	**564.486**	**565.374**	**555.250**	**545.254**	**537.317**
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 Capital Financing Requirement (CFR) through the self-financing regime. This is called the HRA debt limit and equates to £269.904M through to the end of 2019/20.

Prospects for Interest Rates

52. 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.

53. 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 rate risk. Key factors which will continue to have a major impact on the level of interest rates during 2016/17 will be the resolution of 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 2016-17. Our target borrowing rate for 2016/17 is 2.0%.

54. 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 £232k.

Treasury Management Limits on activity

55. 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

56. 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>
57. 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.
58. 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

59. 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).
60. 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.
61. All rescheduling will be reported at the earliest meeting following its action.

Annual Investment Strategy

Investment Policy

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

63. 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.

64. 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.

65. 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.

66. 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.

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

68. 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

69. 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).

70. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2017. Bank Rate forecasts for financial year ends (March) are:

Financial Year	Rate
2015/16	0.50%
2016/17	0.75%

2017/18	1.25%
2018/19	1.75%
2019/20	2.00%

71. 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.

72. There is a 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.

73. 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.

74. To bring balance to the portfolio and an ongoing long term income stream a proportion of the investment fund will be identified for investment into a property fund. This will generate long term dividend income to support the achievement of the interest income budget. It should be noted though that this type of investment is only suitable if the Council accept that we can tie the cash up for a minimum of 5 to 7 years, potentially longer, and accept that there will be entry/exit fees in the region of 7% of the value of the investment. Early exit would therefore reduce the opportunity to recoup the fees and could lead to a loss of capital. The value of our share of the fund will also increase and/or decrease over time, as the value is linked to the underlying asset values and supply and demand for the units.The longer the investment horizon, the lower the risk. Property Funds have been added to the investment portfolios of many Local Authorities in the past couple of years. A full list of specified and non specified investments is in **Appendix E**.

Credit Risk Policy

75. 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.

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

77. 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.

78. 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)

79. 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.

80. 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.

81. 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:-

- **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 2016/17. 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.
- **Councils Bankers -** In addition Lloyds Banking Group, as the Councils bankers will enjoy a 1 notch increase to allow greater flexibility with the Councils overnight balances.

  Following the latest Bank of England stress tests Lloyds Banking Group now have the lowest Credit Default Swap price of all the key UK Banks. This reflects the strengthening work that the bank has undertaken over the past few years, which has led to a more UK focussed and risk minimising strategy being implemented.

  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.

82. 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.

Policy on the use of external service providers

83. The Council currently has a contract with Capita Asset Services, Treasury Solutions as its external treasury management advisors until December 2016.
84. 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.
85. 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.
86. 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

87. Continuation of existing strategy of borrowing longer term. But this would increase our interest costs when the benign interest rate forecasts reduces our exposure to high long term rates in the near future.
88. Borrow sufficient funds to clear the under borrowed position. This would come at an annual cost of between £2.354m and £2.495m, at a time when budgets are already under pressure.

REASONS FOR RECOMMENDED OPTION

89. 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 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.
People live safe, healthy, active and independent lives. • *Mayoral Priority:* Safeguarding our Communities • *Mayoral Priority:* Bringing down the cost of living	None.
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*	None.

All families thrive. • *Mayoral Priority: Protecting Doncaster's vital services*	None.
Council services are modern and value for money.	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.
Working with our partners we will provide strong leadership and governance.	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

90. 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.

91. 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.

92. 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 67 – 74 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

93. 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.

94. 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

95. The budgeted costs of the debt charges for 2016/17 after contributing £3.25m towards the Council's savings target, but before any proposed changes to the MRP Policy take effect, are as follows:-

	General Fund £'M	**GF Prudential Borrowing £'M**	**HRA £'M**	**HRA Borrowing £'M**
Costs				
External Borrowing	7.52	3.60	11.79	11.79
Premium Charges	0.09			
M.R.P.	6.66			
GF Prudential Borrowing	-3.60			
Total Costs	**10.67**		**11.79**	**11.79**
Income				
Investment Interest	-0.45			
Budget	**10.22**			

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

96. The budgeted costs of the debt charges for 2017/18 after contributing £1.75m towards the Council's savings target, but before any proposed changes to the MRP Policy take effect, are as follows:-

	General Fund £'M	GF Borrowing £'M	HRA £'M	HRA Borrowing £'M
Costs				
External Borrowing	9.53	4.25	11.85	11.85
Premium Charges	0.09			
M.R.P.	6.66			
GF Prudential Borrowing	-4.25			
Total Costs	**12.03**		**11.85**	**11.85**
Income				
Investment Interest	-0.75			
Budget	**11.28**			

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

The MRP budgets shown are current budgets before any proposed adjustments are made for savings.

HUMAN RESOURCES IMPLICATIONS

97. None.

TECHNOLOGY IMPLICATIONS

98. None.

EQUALITY IMPLICATIONS

99. 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.

100. 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.

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

102. 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.

103. 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

104. 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.

105. 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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Adults Health & Wellbeing	7.430	5.697	4.700	3.980	2.635	1.509
Finance & Corporate	1.257	1.455	9.754	7.632	8.789	9.563
Learning & Opportunity	13.734	9.675	9.006	5.310	6.880	6.300
Regeneration & Environment	44.088	53.402	56.023	35.161	20.366	17.956
Non-HRA	**66.509**	**70.229**	**79.483**	**52.083**	**38.670**	**35.328**
HRA	**50.911**	**44.059**	**36.175**	**22.398**	**31.555**	**20.200**
Total	**117.420**	**114.288**	**115.658**	**74.481**	**70.225**	**55.528**

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	66.509	70.229	79.483	52.083	38.670	35.328
HRA	50.911	44.059	36.175	22.398	31.555	20.200
Total	**117.420**	**114.288**	**115.658**	**74.481**	**70.225**	**55.528**
Financed by:						
Capital receipts	4.010	8.265	12.424	5.572	6.717	1.128
Capital grants	46.109	45.879	55.974	38.978	24.901	25.200
Capital reserves	0.640	0.939	0.580	0.000	0.051	0.000
Revenue (note 1)	47.073	40.838	35.105	20.057	31.556	20.200

Capital Expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Unfinanced b/fwd.	0.944	0.000	0.000	0.000	0.000	0.000
Unfinanced c/fwd.	0.000	-4.023	0.000	0.000	0.000	0.000
Total	**98.776**	**91.898**	**104.083**	**64.607**	**63.225**	**46.528**
Borrowing Requirement	**18.644**	**22.390**	**11.575**	**9.874**	**7.000**	**9.000**
Smartlight Grant Repayment	0	0	0.532	1.856	1.856	1.856
Total Net Financing Need for the Years	**18.644**	**22.390**	**12.107**	**11.730**	**8.856**	**10.856**

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

<u>Indicators 3 & 4.</u>

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR – GF	247.387	257.164	259.474	259.737	259.597	263.516
CFR – HRA	260.451	264.223	265.052	267.395	267.395	267.395
Total CFR	**507.838**	**521.387**	**524.526**	**527.132**	**526.992**	**530.911**
Movement in CFR	**7.293**	**13.549**	**3.139**	**2.606**	**-0.140**	**3.919**

<u>Indicator 5.</u>

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 £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Reserves balances	143.994	143.994	143.994	143.994	143.994	143.994
Capital receipts	3.787	6.992	11.452	5.007	6.152	0.563
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	**181.100**	**184.305**	**188.765**	**182.320**	**183.465**	**177.876**
Working capital	3.172	3.172	3.172	3.172	3.172	3.172
Under/over borrowing	71.255	78.203	69.095	71.276	62.280	71.541
Expected investments	**40.000**	**60.000**	**60.000**	**60.000**	**60.000**	**60.000**

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% and the HRA is below 17.0%.

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	5.37%	6.14%	6.00%	6.58%	6.93%	7.06%
HRA	15.84%	15.64%	15.87%	16.14%	16.42%	16.95%

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.

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	4.95	13.06	7.25	7.24	0.08	0.00

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.

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels	7.27	2.23	0.61	0.70	0.00	0.00

Indicator 10.

The Council's treasury portfolio position at 31 March 2015, 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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External borrowing						
Borrowing at 1 April	377,806	436,583	443,184	455,431	455,856	464,712
Expected change in borrowing	58,777	6,601*	12,247*	425	8,856	-5,343
Actual borrowing at 31 March	436,583	443,184	455,431	455,856	464,712	459,369
CFR – the borrowing need	507,838	521,387	524,526	527,132	526,992	530,911

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Under / (over) borrowing	71,255	78,203	69,095	71,276	62,280	71,541
Other long-term liabilities – 'Met. Debt'	11.406	10.406	9.406	8.406	7.406	6.406
Expected change in 'Met. Debt'	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Investments						
Total Investments at 31 March	64.000	60.000	60.000	60.000	60.000	60.000
Investment Change	-9.000	-4.000	0.000	0.000	0.000	0.000
Net borrowing	436,519	443,124	455,371	455,796	464,652	459,309

*Includes repayment of Pension Fund prepayment loans.

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR/Borrowing	507.838	521.387	524.526	527.132	526.992	530.911
Other long-term liabilities – 'Met. Debt'	11.406	10.406	9.406	8.406	7.406	6.406
Total	**519.244**	**531.793**	**533.932**	**535.538**	**534.398**	**537.317**

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	507.838	521.387	524.526	527.132	526.992	530.911
Other long-term liabilities – 'Met. Debt'	11.406	10.406	9.406	8.406	7.406	6.406
Theoretical amount that could be Borrowed in advance re future years unfinanced capital expenditure	46.227	32.693	31.442	19.712	10.856	0.000
Total	**565.471**	**564.486**	**565.374**	**555.250**	**545.254**	**537.317**
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	2015/16	2016/17	2017/18	2018/19	2019/20
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 2015/16				
	Amount £m	**%**	**Lower**	**Upper**
Under 12 months	73,588	16.60%	0%	30%
12 months to 2 years	12,187	2.75%	0%	50%
2 years to 5 years	40,747	9.19%	0%	50%
5 years to 10 years	35,101	7.92%	0%	75%
10 years and above	281,561	62.53%	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	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	20	24	24	24	24

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

MRP Policy Statement

<u>2015/16 Minimum Revenue Provision (MRP) and Borough Investment Fund (BIF) Review Summary</u>

1.0 The Council has reviewed the MRP policy and has outlined proposals around changes to the calculation of MRP and operation of BIF. The change in accounting policy will be adopted and implemented in 2015/16.

1.1. This document has been written to clarify the final decision regarding MRP, including;

- what considerations were made.
- how the policy will be applied
- and how the use of over provision will be monitored.

The purpose of the MRP and BIF review

2.0 The Minimum Revenue Provision (MRP) charge is the means by which capital expenditure which has been funded by borrowing and credit arrangement is paid for by council tax payers. The Council is required by statute to charge Minimum Revenue Provision (MRP) to the General Fund Revenue Account each year for the repayment of this debt.

2.1. Amendments to the 2008 regulations have meant that detailed rules around MRP have now been replaced with a simple duty for an Authority each year to make an amount of MRP which it considers to be "prudent provision", requiring local Authorities to 'have regard to' when setting a prudent MRP provision. As a result of these changes it was decided that it was an appropriate time to review the MRP policy and the Borough Investment Fund.

2.2. The Borough Investment Fund (BIF) was set up in 2002/03 by the Council and aimed to provide funds to finance major schemes. The costs associated with the system included a charge for interest on borrowing and a provision for MRP. The operation of the BIF hasn't changed over the years whilst it has expanded to include many different schemes.

2.3. The current way of accounting for the system is complex involving many calculations and accounting entries. We now have more flexibility in how we account for such funds than we did when the scheme was set up. We have looked at alternative ways of accounting with a view to making the system simpler and more transparent whilst lowering the charges. Many Councils have already done this so there is less risk.

Guidance considered

3.0 The guidance explains that provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to the length of service which the asset continues to provide. Where borrowing has been supported by the Government through the revenue support grant it is reasonable to link the provision broadly with that implicit in the determination of the grant. The guidance then goes on to include four options which are likely to be relevant to most authorities.

3.1. The four options within the guidance are;

- **Option 1) Regulatory method**;

  It is the same as the previous Statutory method which calculated the provision as 4% of the Authorities General fund capital financing requirements adjusted for "Adjustment A" the device for achieving neutrality between old and new MRP systems.

- **Option 2) Capital Financing Requirement (CFR) method;**

  Is the same as option 1) apart from the removal of the "Adjustment A" from the calculation.

- **Option 3) Asset Life method, using either - Equal instalment method or -Annuity method of calculation;**

  Makes provision for MRP over the estimated life of the asset for which the borrowing is undertaken. This can be calculated in either equal instalments providing a constant equal annual amounts.

  Or alternatively;

  Can be calculated by the annuity method which links the MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. This may be attractive in connection with projects promoting regeneration, administration efficiencies or where revenues will increase over time.

- **Option 4) Depreciation method;**

  Provides for MRP based on the procedures for calculating depreciation which could mean that the provision for MRP could fluctuate annually in line with changes to the asset.

  Options 3 and 4 the provision for charging debt would normally start in the financial year following the one in which the expenditure is incurred, however in the case of a new asset MRP doesn't have to be charged until the financial year following the one in which the asset became operational.

4.0 <u>Original 2015/16 MRP Policy adopted;</u>

Option 1) The Regulatory Method of calculation on its General fund Capital Financing Requirement (CFR) balance relating to pre 2007/08 borrowing which was supported by Government through the Revenue support grant system. This method is also applied to any further government supported debt applied post 2007/08.

And;

Option 3) The asset life method selecting the equal instalment method of calculating MRP on any new unsupported borrowing (prudential borrowing) from 2008 onwards.

5.0 <u>Amended 2015/16 MRP Policy now adopts;</u>

5.1. <u>Option</u> 3) the asset life method selecting the Annuity method for;

- **The calculation of MRP in relation 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.**

5.2. The MRP provision calculated on the annuity basis will be re-profiled and where appropriate back dated to identify the amount of over provided MRP and an amended profile for the annual MRP provision. With respect of the Civic and cultural quarter development the re-profiled calculation will also take into consideration when the asset became operational, factoring in appropriate delays in charging MRP.

5.3. As the pre 2007 debt cannot be tied back to the asset which it related to, the life used for the MRP calculation will be based on an estimate.

5.4. An asset life of 50 years (approximately 2%) is felt to be the most appropriate to be applied to this debt. The life is prudent and reflective of the asset lives which would have been attached to those assets generated by the borrowing. The 50 year life is in line with recently constructed assets funded by borrowing e.g. the Civic office and New Performance Venue (NPV). To further support the asset life decision reference back to the 2004/05 asset register was made which confirmed that the lives attached to the assets known to be funded by borrowing had original lives of around 50 years.

5.5. The capital practitioner's guidance on setting useful lives to be applied to their MRP policy was considered as part of making this decision and advises;

- Authorities should use their own best endeavours to set useful lives for the expenditure they incur.

- In setting useful lives, authorities should take into account their general responsibility to make prudent provision. It would not be reasonable to set useful lives at the maximum potential life for each asset.

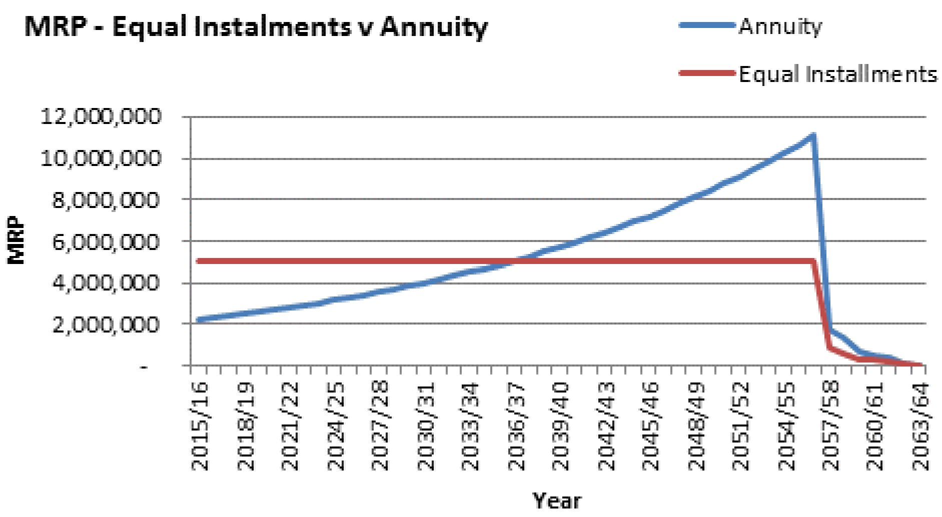
- The life will normally be that which would be set for depreciation purposes at the time an asset is brought into use, with the distinction that it is not then expected to be reviewed over the remaining life of the asset.

5.6. A 4% discount rate has been applied within the Annuity calculation to assist with the calculation of future value of cash flows. The rate used is based on the cost of capital, risks and the opportunity cost of the capital. Any change to this discount rate will affect the charges. It is felt that a 4% rate fairly represents the circumstances which would likely apply over the long term.

5.7. Option 3) the asset life method selecting the Equal Instalment calculation, will be applied to all other 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.

5.8. The change in accounting policy to the annuity calculation effectively means we provide less in the earlier years and more in future years, therefore re-profiling the budget over the period. Under the annuity method it is important to note that the provision will increase annually and we will therefore have to increase the budget year on year to cover the constant increase in charges. The increase required will be built into the MTFP and for schemes which have MRP provided on an annuity basis this will equate to a 4% increase; this is shown in table 5.

5.9. The graph below shows the comparison of the Pre 2007/08 debt MRP profile between the annuity and equal instalment. By 2057/58 the result is the same for both the equal instalment and annuity methods but the annuity method releases funding in 2015/16 on-going but shifts the burden on the taxpayer to the later years.



5.10. To accurately compare the Pre 2007/08 equal instalment and the annuity method we have discounted the future cash flows to provide a present value (PV). The equal instalment method gives a PV of £106m whilst the annuity method gives a PV £78m. The lower the PV the better as the PV shows the future cash flows at today's prices. In our example the annuity method is better as it shows a £28m lower cost at today's values.

6.0 Policy proposed for unsupported borrowing post 2015/16;

Option 3) the asset life method selecting either;

- **Equal Instalment calculation**

Or;

- **Annuity Method**

The method of calculation will be considered alongside the type of capital spend being funded ensuring the most appropriate method is selected.

7.0 Over provisions identified

7.1. The MRP charge has been re-profiled to take account of the amended 2015/16 policy. The revised calculation resulted in the release of funding, which is included in the 2016/17 budget proposals, and over provisions which are detailed in Table 1 below.

7.2. In 2015/16 £3.732m budget in relation to the Pre 2007/08 debt and £0.665m in relation to the CCQ debt will be removed from 2015/16 MRP budgets and provide one-off funding in this financial year. The £3.732m is included in the 2016/17 BIF/MRP budget proposal and the £0.655m will go towards the Asset review target in 2016/17. It should be noted that no additional costs to the public are incurred in relation to the CCQ scheme as a result of the re-profiling.

7.3. The total over provision of £48.7m is a result of the change in accounting policy around the calculation of MRP. It has been provisionally agreed with audit that annual MRP charges do not have to be charged to revenue until the £48.7m over provision has been exhausted. In order to monitor the over provision and its usage new codes will be set up within the capital adjustment account, allowing us to monitor when the requirement to provide for MRP will return. It is important to note that the £48.7m can only be used to offset future MRP charges and cannot be used for any other purpose including creating a reserve or provision.

7.4. Finance leases and PFI contracts were not originally discussed because this is outside the MRP policy. However it should be noted that the MRP has to be provided for in relation to Finance leases and PFI contracts. In line with the MRP guidance their provision is equal to the rent/charge which writes down the balance sheet liability. Further discussions will be progressed with Audit to see if these MRP charges can also be met from the £48.7m over provision.

7.5. The 2015/16 BIF reserve and related MRP/Interest budget release of £0.587m relates to MRP and interest budgets and will be removed from the appropriate 2015/16 budgets. The MRP and interest budgets associated with the BIF reserve will also be transferred to Treasury and will be monitored centrally. The £0.587m is split between £0.279m MRP and £0.308m interest, the interest budgets were recalculated based on the Quarter 3 projection, and budget will be removed from services prior to being transferred to Treasury. The £0.587m is included in the 2016/17 BIF/MRP budget proposal. The £10.1m one off reserve related to the element of the BIF which was held as an earmarked reserve for a specific purpose and will no longer be held for this purpose in future; this is considered below at paragraph 8.

8.0 <u>Use of resources</u>

8.1. We are proposing to use £14.1m of the £48.7m over provision balance to fund the MRP requirement in relation to PFI contracts. The £14.1m represents the MRP charges from 2015/16 to 2022/23 a breakdown can be seen in table 5. This use of the over provision increases the budget available in the early years by using more of the overprovision annually. The inclusion of the PFI changes the over provision profile and would mean the obligation to charge MRP would return earlier.

8.2. In 2015/16 there are £10.2m one-off resources, this includes £5.25m released due to the MRP that has been over provided and £4.984m included in the 2016/17 budget proposals. Of the 2015/16 one-off budget it is estimated that £2.7m will be used to fund the one-off compensation payment to staff in relation to the changes introduced through Modern and Productive Workforce (MPW). (the actual one off budget used will be confirmed at out turn). In 2015/16 the £10.2m less £2.7m leaves £7.5m available for future options. The 2016/17 figure reduces to £5.548m because the £4.984m budget reduction is removed from the 2016/17 budgets.

8.3. The table below shows the one-off budget re-profile available for the

2017/18 financial year as a result of using the overprovision, meaning no MRP provision is made in these years:

	MRP & PFI budgets £'m
BIF Reserve	10.110
2015/16	7.511
2016/17	5.548
2017/18	5.477
Total	**28.646**

We are working on the option of using the one-off funding detailed above for the 2017/18 pension prepayment, which would reduce the requirement to borrow and deliver savings towards the £63m target savings needed for 2017/18 to 2020/21. The budget re-profile detailed in Table 5 is available for future investment opportunities aimed at achieving savings which will assist with providing the increasing costs in later years.

9.0 Future Impact and Risk

9.1. There is a risk that in the final Audit, the proposed changes are not found to be acceptable. This could mean that changes to the assumptions used to calculate the re-profiled Annuity MRP are required, as this calculation forms the basis for the formulation of the over provision, any amendments made would result in a reduction in the over provision available.

9.2. It must also be noted that the applying the MRP provided for PFI schemes against the over provision was not included within the original review seen by Audit, it is therefore subject to their agreement and has been included provisionally.

9.3. In order to mitigate the above risk the first £18m freed up from utilising the over provision will deliberately not be committed until Audit agreement has been confirmed. If agreement is confirmed any available resources freed up will be available for investment opportunities.

9.4. The use of Annuity method of calculation for the Pre 2007/08 and CCQ MRP provisions moves away from the current method of calculation; 4% reducing balance and equal life basis. Under the old methods the MRP requirement would have remained constant under the equal life method or reduced under the 4% reducing balance method. The annuity method is different in that it links the MRP charge to the flow of benefits from an asset, as it is designed to be applied to assets whose benefits are expected to increase in later years. This means that the MRP provision will increase annually. In order to ensure future MRP revenue budgets are sufficient annual increases will be required for schemes which have MRP provided on an annuity basis. For current schemes this will equate to a 4% increase.

Table 1

Summary of MRP & BIF budget released, including the balance of MRP that is available to offset future MRP charges.

	2015/16 MRP/Interest budget released	MRP over-provision to be used of offset future MRP charges	One off Reserve	
	£'m	£'m	£'m	
BIF reserve and related MRP/Interest	0.587		10.110	
Pre 2007/08 debt	3.732	45.297		See Table 3 below for detail
CCQ debt	0.665	3.403		See Table 4 below for detail
Total	**4.984**	**48.700**	**10.110**	

Table 2

Analysis of MRP & Interest Budgets and On-going budget reductions

Name	MRP/ Interest	2015/16 Budget	MRP/ Interest	Pre 2007/08 debt	CCQ debt	Updated 2015/16 Budget
	£'m	£'m	£'m	£'m	£'m	£'m
TPIP	MRP	1.283	-0.279			1.004
TPIP	Interest	1.145	-0.254			0.891
Pre 2007/08 debt MRP	MRP	4.944		-3.732		1.212
CCQ	MRP	0.990			-0.665	0.325
CCQ	Interest	1.290	-0.119			1.171
Pool Car Scheme	Interest	0.027	-0.004			0.023
Assistive Technology	Interest	0.054	-0.032			0.022
Digital Region	Interest	0.082	0.101			0.183
Total		**9.815**	**-0.587**	**-3.732**	**-0.665**	**4.831**

identified

Table 3 – MRP Annuity charge re Pre 2007/08 debt and government supported borrowing to 2014/15, including budget released and inflation to be applied.

YEAR	MRP CHARGE ON AN ANNUITY BASIS	MRP CHARGED TO DATE	BUDGETED MRP RE pre 2007/08 DEBT AND TPIP	BUDGET REDUCTION	OVER PROVISION	INFLATION APPLIED TO MRP BUDGET
2007/08	1,375,966	7,368,508			5,992,542	
2008/09	1,501,072	7,615,020			6,113,947	
2009/10	1,660,820	7,815,741			6,154,921	
2010/11	1,750,031	7,656,901			5,906,870	
2011/12	1,847,427	7,271,520			5,424,093	
2012/13	1,957,576	7,317,612			5,360,036	
2013/14	2,047,958	7,395,101			5,347,143	
2014/15	2,133,274	7,130,266			4,996,992	
2015/16	2,216,664	-	6,227,650	-4,010,980 **		-
2016/17	2,305,330	-	2,216,670			88,667
2017/18	2,397,544	-	2,305,337			92,213
2018/19	2,493,445	-	2,397,550			95,902
2019/20	2,593,183		2,493,452			99,738
2020/21	2,696,911		2,593,190			103,728
2021/22	2,804,787		2,696,918			107,877
2022/23	2,916,978		2,804,795			112,192
2023/24	3,033,658		2,916,986			116,679
2024/25	3,155,004		3,033,666			121,347
2025/26	3,281,204		3,155,013			126,201
2026/27	3,412,452		3,281,213			131,249
2027/28	3,548,950		3,412,462			136,498
2028/29	3,690,908		3,548,960			141,958
2029/30	3,838,545		3,690,918			147,637
2030/31	3,992,086		3,838,555			153,542
2031/32	4,151,770		3,992,097			159,684
2032/33	4,317,841		4,151,781			166,071
2033/34	4,490,554		4,317,853			172,714
2034/35	4,670,176		4,490,567			179,623
2035/36	4,856,984		4,670,189			186,808
2036/37	5,051,263		4,856,997			194,280
2037/38	5,253,313		5,051,277			202,051
2038/39	5,463,446		5,253,328			210,133
2039/40	5,681,984		5,463,461			218,538
2040/41	5,909,263		5,681,999			227,280
2041/42	6,145,634		5,909,279			236,371
2042/43	6,391,459		6,145,651			245,826
2043/44	6,647,117		6,391,477			255,659
2044/45	6,913,002		6,647,136			265,885
2045/46	7,189,522		6,913,021			276,521
2046/47	7,477,103		7,189,542			287,582
2047/48	7,776,187		7,477,124			299,085
2048/49	8,087,235		7,776,209			311,048
2049/50	8,410,724		8,087,257			323,490
2050/51	8,747,153		8,410,747			336,430
2051/52	9,097,039		8,747,177			349,887
2052/53	9,460,921		9,097,064			363,883
2053/54	9,839,357		9,460,947			378,438
2054/55	10,232,932		9,839,385			393,575
2055/56	10,642,249		10,232,960			409,318
2056/57	11,067,939		10,642,278			425,691
2057/58	1,732,099		11,067,970	- 9,335,870		
2058/59	1,303,437		1,732,100	- 428,660		
2059/60	647,003		1,303,440	- 656,430		
2060/61	511,008		647,010	- 136,000		
2061/62	336,765		511,010	- 174,240		
2062/63	92,602		336,770	- 244,160		
2063/64	10,463		92,610	- 82,140		
TOTALS	**251,257,318**	**59,570,669**	**243,201,045**	**- 15,068,480**	**45,296,544**	**8,851,300**

** -£4.011m - Is made up of 15/16 one off savings £3.732m and 15/16 one off budget release £279k which is the MRP element of the £587k.

Table 4 – MRP Annuity charge re CCQ un-supported borrowing to 2014/15, including budget released and inflation to be applied.

YEAR	MRP CHARGE ON AN ANNUITY BASIS	MRP CHARGED TO DATE	BUDGETED MRP	BUDGET REDUCTION	OVER PROVISION	INFLATION APPLIED TO MRP BUDGET
2011/12		990,000			990,000	
2012/13		990,000			990,000	
2013/14	246,303	990,000			743,697	
2014/15	311,154	990,000			678,846	
2015/16	325,199		990,000	- 664,801		
2016/17	338,207		325,199			13,008
2017/18	351,735		338,207			13,528
2018/19	365,804		351,735			14,069
2019/20	380,436		365,805			14,632
2020/21	395,654		380,437			15,217
2021/22	411,480		395,654			15,826
2022/23	427,939		411,480			16,459
2023/24	445,057		427,940			17,118
2024/25	462,859		445,057			17,802
2025/26	481,373		462,860			18,514
2026/27	500,628		481,374			19,255
2027/28	520,654		500,629			20,025
2028/29	541,480		520,654			20,826
2029/30	563,139		541,480			21,659
2030/31	585,664		563,139			22,526
2031/32	609,091		585,665			23,427
2032/33	633,455		609,092			24,364
2033/34	658,793		633,455			25,338
2034/35	685,144		658,794			26,352
2035/36	712,550		685,145			27,406
2036/37	741,052		712,551			28,502
2037/38	770,694		741,053			29,642
2038/39	801,522		770,695			30,828
2039/40	833,583		801,523			32,061
2040/41	866,926		833,584			33,343
2041/42	901,603		866,927			34,677
2042/43	937,668		901,604			36,064
2043/44	975,174		937,669			37,507
2044/45	1,014,181		975,175			39,007
2045/46	1,054,748		1,014,182			40,567
2046/47	1,096,938		1,054,750			42,190
2047/48	1,140,816		1,096,940			43,878
2048/49	1,186,449		1,140,817			45,633
2049/50	1,233,907		1,186,450			47,458
2050/51	1,283,263		1,233,908			49,356
2051/52	1,334,593		1,283,264			51,331
2052/53	1,387,977		1,334,595			53,384
2053/54	1,443,496		1,387,979			55,519
2054/55	1,501,236		1,443,498			57,740
2055/56	1,561,285		1,501,238			60,050
2056/57	429,022		1,561,287	- 1,132,260		
2057/58	149,161		429,027	- 279,860		
2058/59	155,127		149,167			5,967
2059/60	161,332		155,134			6,205
2060/61	167,785		161,339			6,454
2061/62	174,497		167,793			6,712
2062/63	181,477		174,504			6,980
2063/64	188,736		181,485			7,259
2064/65	196,285		188,744			7,550
2065/66	204,137		196,294			7,852
2066/67	212,302		204,145			8,166
2067/67	220,794		212,311			8,492
2068/69	229,626		220,804			8,832
2069/70	238,811		229,636			9,185
2070/71	248,363		238,821			9,553
2071/72	258,298		248,374			9,935
2072/33	268,630		258,309			10,332
TOTALS	**36,705,292**	**3,960,000**	**36,869,378**	**- 2,076,921**	**3,402,543**	**1,355,563**

NB: Any future un-supported borrowing taken in respect of these CCQ assets from 2015/16 onwards would require the above inflation and MRP charges to be updated.

Table 5 – Budget Re-profile for MRP

Year	General MRP budget *	Schools PFI budget	General MRP & Schools PFI budget	Budget Re-profile & use of MRP prev. provided	Change in MRP Budget (for info)
2015/16	3,457	1,792	5,249	- 5,249	-
2016/17	3,782	1,766	5,548	- 5,548	325
2017/18	3,888	1,589	5,477	- 5,478	106
2018/19	3,998	1,967	5,965	- 5,965	110
2019/20	4,112	1,554	5,667	- 5,667	114
2020/21	4,231	2,232	6,464	- 6,464	119
2021/22	4,252	2,106	6,357	- 6,357	20
2022/23	4,380	1,125	5,505	- 5,505	129
2023/24	4,514	147	4,661	- 2,466	134
2024/25	4,653	2,451	7,104		139
2025/26	4,798	1,865	6,663		145
2026/27	4,949	2,619	7,568		150
2027/28	5,105	1,996	7,101		157
2028/29	5,268	2,442	7,709		163
2029/30	5,437	2,766	8,204		169
2030/31	5,613	3,002	8,615		176
2031/32	5,404	3,119	8,523		- 209
2032/33	5,548	2,548	8,096		144
2033/34	5,458	977	6,434		- 91
2034/35	5,664		5,664		206
2035/36	5,878		5,878		214
2036/37	6,100		6,100		223
2037/38	6,332		6,332		232
2038/39	6,573		6,573		241
2039/40	6,824		6,824		251
2040/41	7,084		7,084		261
2041/42	7,047		7,047		- 37
2042/43	7,329		7,329		282
2043/44	7,622		7,622		293
2044/45	7,927		7,927		305
2045/46	8,244		8,244		317
2046/47	8,574		8,574		330
2047/48	8,917		8,917		343
2048/49	9,273		9,273		357
2049/50	9,644		9,644		371
2050/51	10,030		10,030		386
2051/52	10,431		10,431		401
2052/53	10,848		10,848		417
2053/54	11,282		11,282		434
2054/55	11,734		11,734		451
2055/56	12,203		12,203		469
2056/57	11,497		11,497		- 706
2057/58	1,881		1,881		- 9,616
2058/59	1,459		1,459		- 423
2059/60	808		808		- 650
2060/61	679		679		- 130
2061/62	511		511		- 168
2062/63	274		274		- 237
2063/64	199		199		- 75
2064/66 to 2072/73	2,077		2,077		75
TOTALS	**293,792**	**38,063**	**331,855**	**- 48,699**	**- 3,189**

* Includes Pre 2007/08, CCQ and former BIF reserve schemes, and inflation increases detailed tables 3 and 4. Assumes budgets for PFI lease liability budget & MRP calculated on equal instalments same as charge. In addition to the 2015/16 figure there is also £4.98m one-off budget available in 2015/16, which is included in the 2016/17 budget proposals.

Notes: MRP in relation to IMF has been excluded. This MRP could also be offset by the overprovision but has been excluded in light of the review of IMF process being undertaken. The BIF reserve £10.1m is not included within these figures.

Glossary of Terms

Borough Investment Fund (BIF) – This is an earmarked reserve established in 2002 to provide funding for the delivery of the Transformational Projects Investment Programme (T.P.I.P) and now provides for schemes largely in the Regeneration and Environment capital programme. Initially the reserve was built up over a number of years to allow for the early repayment of debt at the end of a defined loan period, usually twenty five years. In more recent years has been used to smooth borrowing charges to revenue by accumulating budget underspends and releasing funds when costs are more than the budget. The reserve also holds the accumulation of surplus from the Investment and Modernisation Fund.

Capital Financing Requirement (CFR) – This is a measure of the authority's underlying need to borrow for capital purposes. It does not necessarily represent the authority's actual borrowing at any one time. The CFR calculates the amount of capital expenditure that has yet to be financed by the setting aside of cash-backed resources (grants, contributions, capital receipts, revenue financing). The CFR has two main purposes – as a key element in Prudential Code limits and indicators, and as a control total for Minimum Revenue Provision calculations

Capital Adjustment Account (CAA) - This Account absorbs the timing differences arising from the different arrangements for accounting for the use of non-current assets and for financing those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation. The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

Capitalisation – The means by which the Department for Communities and Local Government, exceptionally, permits local authorities to treat revenue costs as capital costs. Where permission is granted these costs can be funded from capital resources, including borrowing or the use of capital receipts. This enables authorities to meet those costs over a number of years. Capitalisation is a relaxation of accounting conventions and as such is strictly controlled and subject to an application process.

Civic and Cultural Quarter (CCQ) – A capital scheme which is re-vitalising and transforming Waterdale reconnecting it to the town centre giving the area a clear identity. It is already drawing people in and encouraging redevelopment in the neighbouring areas (i.e. in and around the Waterdale Shopping Centre). The capital scheme includes the Civic Offices, the CAST performance venue and Sir Nigel Gresley Square.

Discount rate - refers to the interest rate used in the calculation to determine the present value of future cash flows. The discount rate takes into account the time value of money.

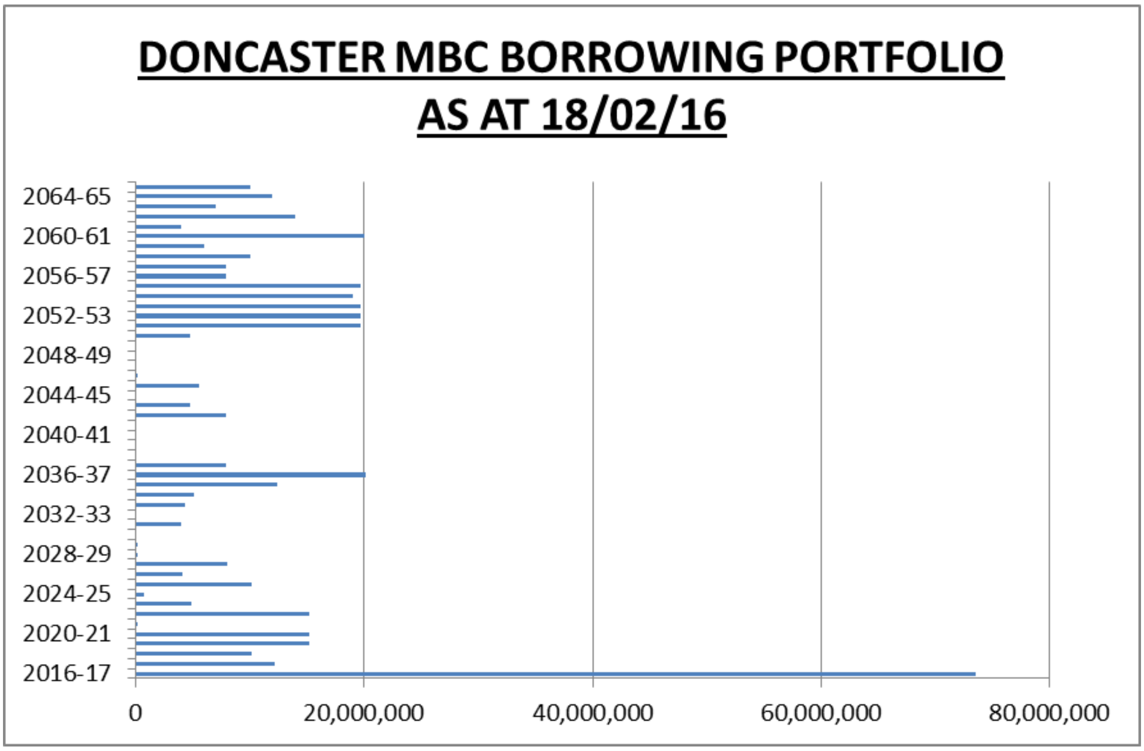
Investment Modernisation Fund (IMF) - A fund of currently up to £50m borrowing to support capital projects which are aligned to the Council's priorities and which will stimulate growth, assist with meeting the required increase level of business rates and employment and/or generate savings in Council budgets. Projects need to be self-financing by generating revenue savings or stimulating additional income. Business cases are presented to the IMF Board for consideration and approval.

Minimum Revenue Provision (MRP) – This is the minimum amount that must be charged to the Council's revenue account each year to provide for the repayment of loans used to finance capital expenditure.

Present value (PV) – The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows. The basis is that receiving £1,000 now is worth more than £1,000 five years from now, because if you have the money now, you could invest it and receive an additional return over the five years.

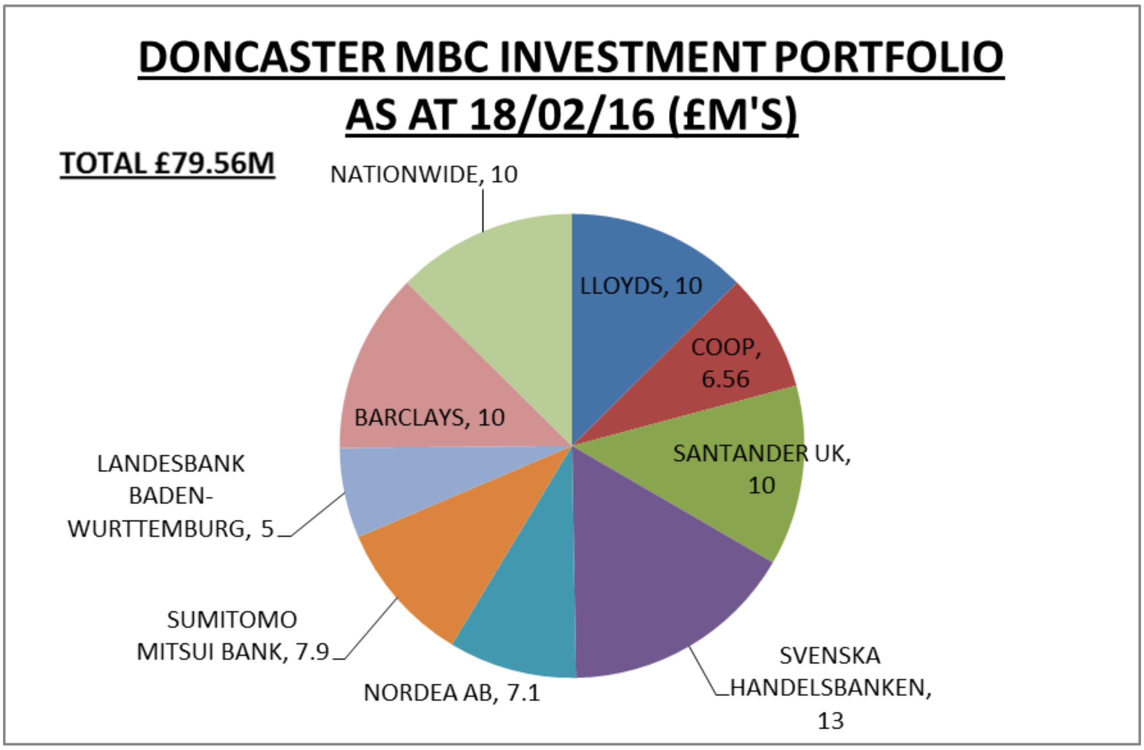
Treasury management – The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

APPENDIX C



2016-17 Figure includes £39m of loans which potentially DMBC could be asked to repay. (Paragraph 30).

Total loans £443M



Total investments £79.56M (excluding Iceland balance of £24k)

APPENDIX D

Interest Rate Forecasts

Bank Rate	**Now**	**Mar 2016**	**Mar 2017**	**Mar 2018**	**Mar 2019**
Actual Feb16	0.50%	-	-	-	-
Capita Asset Services view.	0.50%	0.50%	0.75%	1.25%	1.75%
Capital Economics(CE)	0.50%	0.50%	0.75%	-	-
5Yr PWLB Rate					
Actual Feb16	1.55%	-	-	-	-
Capita Asset Services.	1.55%	1.70%	2.20%	2.70%	3.10%
CE	1.55%	2.10%	2.80%	-	-
10Yr PWLB Rate					
Actual Feb16	2.20%	-	-	-	-
Capita Asset Services.	2.20%	2.30%	2.70%	3.10%	3.60%
CE	2.20%	2.85%	3.30%	-	-
25Yr PWLB Rate					
Actual Feb16	3.05%	-	-	-	-
Capita Asset Services.	3.05%	3.20%	3.50%	3.70%	3.80%
CE	3.05%	2.85%	3.30%	-	-
50Yr PWLB Rate					
Actual Feb16	2.88%	-	-	-	-
Capita Asset Services.	2.88%	3.00%	3.30%	3.50%	3.70%
CE	2.88%	2.90%	3.35%	-	-

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.

<u>Approved Countries for investments</u>

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	

List of Institutions qualifying for Council Investment as at 19/02/16

Institution Name	Colour	Limit £'M
Lloyds Banking Group**	RED	20 MAX
Bank of Scotland PLC (part of Lloyds Banking Group)	RED	20
Lloyds Bank PLC (part of Lloyds Banking Group)	RED	20
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
Coventry Building Society	RED	10
Yorkshire Building Society	GREEN	5
Leeds Building Society	RED	10
Sumitomo Mitsui Banking Corporation	RED	10
UBS Limited	RED	10
Australia & New Zealand Banking Group	RED	10
Commonwealth Bank of Australia	RED	10
Macquarie Bank Limited	GREEN	5
National Australia Bank	RED	10
Westpac Banking Corporation	RED	10
Bank of Montreal	ORANGE	20
Bank of Nova Scotia	ORANGE	20
Canadian Imperial Bank of Commerce	ORANGE	20
National Bank of Canada	RED	10
Royal Bank of Canada	ORANGE	20

Toronto Dominion Bank	ORANGE	20
Danske Bank	RED	10
Bayern LB	RED	10
DZ Bank AG	ORANGE	20
Landsbank Baden Wuerttemberg	RED	10
Landesbank Berlin AG	ORANGE	20
Landsbank Hessen-Thueringen Girozentral	ORANGE	20
DBS Bank	ORANGE	20
Overseas Chinese Banking Corporation	ORANGE	20
United Overseas Bank Ltd	ORANGE	20
Nordea Bank AB	ORANGE	20
Skandinaviska Enskilda Banken AB	ORANGE	20
Swedbank AB	ORANGE	20
Svenska Handelsbanken AB	ORANGE	20
Credit Suisse AG	GREEN	5
UBS AG	RED	10
Nordea Bank Finland PLC	ORANGE	20
Pohjola Bank	ORANGE	20
Bank Nederlands Gemeenten	PURPLE	30
Rabobank Nederland	ORANGE	20
ING Bank NV	RED	10
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. They will be removed once the transfer of our General Banking Requirement moves to Lloyds Bank during Q1 2016.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.