REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE**	**AGENDA ITEM: 7**
DATE OF MEETING:	**16th FEBRUARY 2017**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF FINANCE and CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/treasury management/strategies/strategy 2017-18
SUBJECT:	**TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2017/18**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 The Treasury Management Strategy for 2017/18 is approved.

1.2 The Prudential Indicators and Limits for 2017/18 to 2021/22 as set out in **Appendix 1** are approved.

1.3 The Investment Policy for 2017/18 including the associated counterparty (lending) list is approved.

2.0 Purpose of the Report

2.1 To detail the Council's Prudential Indicators for its expected treasury operations for the medium-term financial planning period, 2017/18 to 2021/22. This is in accordance with the requirements of the Local Government Act 2003, updated for provisions contained in the Localism Act 2011. Three main areas are covered:

- The CIPFA Prudential Code (2011) which requires the reporting of the Indicators for Capital Finance in Local Authorities.
- The Treasury Strategy in accordance with the CIPFA Code of Practice on Treasury Management.
- The Investment Strategy in accordance with Central Government guidance (2010).

3.0 Summary

The Prudential System for Capital Finance

3.1 The Council is required to manage its treasury and capital expenditure activities under a National Code. The main aims of the National Prudential System are to ensure that:

- Capital investment plans of local authorities are affordable and sustainable.
- Treasury management decisions are taken in accordance with best professional practice.
- Financial planning and asset management are integrated into the Council's overall corporate planning arrangements.

3.2 Treasury operations are measured within a set of prudential indicators. The main purpose of these indicators is to provide the limits and benchmarks to control the level of capital expenditure, borrowing and investment. The Council is expected to operate comfortably within these limits.

3.3 The Prudential System allows councils the freedom to borrow on a prudential basis. Any new borrowing has to be accommodated within any maximum debt limits or caps set by Central Government and the Council has to demonstrate that it can afford to service and repay the debt within its financial plans.

The Treasury Management Strategy

3.4 The Strategy aims to provide transparency for treasury decisions including the use of counterparties, together with assessing how risk is managed on a day-to-day basis.

Prudential Indicators

3.5 The relevant indicators required under the regulations are summarised in the following sections. They are detailed in **Appendix 1**.

Estimated Capital Expenditure

3.6 This is the approved capital investment programme for the General Fund, together with stock investment proposals included in the HRA Business Plan. The programme is summarised in the following table.

Estimated Capital Expenditure	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
General Fund	4,464,091	3,721,566	821,165	606,000	606,000	656,000
HRA	5,700,000	1,800,000	1,843,000	1,888,000	1,935,000	1,983,000
TOTAL	**10,164,091**	**5,521,566**	**2,664,165**	**2,494,000**	**2,541,000**	**2,639,000**

3.7 The reduction in estimated expenditure on the General Fund beyond the current financial year 2016/17 is due to the completion of several capital projects that were commenced in earlier years. In particular, these relate to the provision of new leisure facilities and the relocation of the Council's Depot.

3.8 The reduction in HRA expenditure is also due to the completion of previous investment in upgrading the Council Housing stock and one-off expenditure in 2016/17 regarding the building of new properties.

3.9 Overall, the capital expenditure programme is financed from Government grants, external contributions, Council reserves and capital receipts. Some external borrowing may be undertaken in 2017/18 depending upon the timing of capital payments for completing the Council's New Build Programme.

3.10 It is expected that internal borrowing will be undertaken to finance that part of the financial package (as previously approved). This will depend on the availability of capital receipts and general reserves, although they are anticipated to be adequate over the 5-year planning period to finance the borrowing required (approximately £400,000).

Capital Financing Requirement (CFR) and Debt Outstanding

3.11 The CFR is a measure of the Council's underlying need to borrow for capital investment. It is based on the value of fixed assets as reported in the Council's Balance Sheet.

3.12 The CFR does not necessarily represent the amount of actual external debt outstanding. This is due to the fact that not all borrowing previously allowed has in effect taken place against this requirement, but is being financed internally through cash deposits and reserves.

Debt Pools

3.13 The Council operates two separate Debt Pools, one for the General Fund and one for the Housing Revenue Account (HRA). There is no external debt currently outstanding on the General Fund, although it has a positive CFR representing an underlying borrowing need.

3.14 The General Fund CFR is reduced each year by a statutory revenue charge known as the Minimum Revenue Provision (MRP). In addition a Voluntary Revenue Provision (VRP) is made where borrowing has been undertaken on a prudential basis.

3.15 There is no requirement to make a MRP or VRP in the Housing Revenue Account. The HRA has debt outstanding of just over £57m. This represents the debt inherited under the self-financing framework for Council Housing.

3.16 Although no MRP is required for the HRA, in future years, money will be set-aside to repay the HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan. The expected CFRs over the current financial planning period to 2021/22 are detailed in the following table.

Expected CFR	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund	5,999	5,653	5,316	4,988	4,667	4,409
HRA	61,990	61,990	61,990	61,990	61,990	51,990

3.17 The CFR on the General Fund will continue to reduce over the medium-term due to MRP/VRP being applied. These charges for all years are included in the Council's base budget.

3.18 The HRA CFR in 2016/17 includes provision for new borrowing of £406,000 to complete the New Build Programme.

3.19 Effectively, the MRP/VRP creates a cash amount in the Council's budget in order to write down the underlying borrowing requirement.

3.20 The larger CFR on the HRA is forecast to remain fairly static until such time as any new borrowing is undertaken or until the first repayment of £10m self-financing debt in 2021/2022 (as highlighted in the above table).

Operational Boundaries and Limits

3.21 These are summarised in the following table.

Debt Limits	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Authorised Limit - General Fund	5,999	5,653	5,316	4,988	4,667	4,409
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	62,423	62,423	62,423	62,423	62,423	52,423

3.22 The Authorised Limit is the Borrowing Cap for the Council. It includes the CFR on the General Fund, plus the debt cap set by the Government on the HRA for self-financing, i.e. £66.853m. The Operational Boundary represents the expected fixed external debt outstanding in the year (HRA at £57.423m) plus a provision for temporary borrowing of £5m.

3.23 As in recent years, it is not expected that any temporary borrowing will be required, but is included as a contingency should cash flow become negative in the short-term.

Cost of Debt to Finance Capital Expenditure

3.24 The estimated cost of debt, to finance the capital programme contained in the consolidated budget proposals on Council Tax and Housing Rents, is summarised in the following table.

Cost of Servicing Debt	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Band D Council Tax	-£1.47	-£0.58	-£0.58	-£0.57	-£0.56	-£0.55
Per Council Dwelling	£570	£595	£610	£613	£616	£619

3.25 As there is no actual debt on the General Fund, the impact on Council Tax is positive as this represents interest on cash deposits. Income is expected to decrease in the medium-term in accordance with the reduction in the Bank Base Rate from 0.5% to 0.25% in August 2016.

Estimated Resources

3.26 These represent balances and reserves held for specific purposes and to act as a contingency/provision. These are the resources the Council has to invest and to internally finance any short term borrowing requirement. The estimated year end position is shown in the following table.

Estimated Resources Available	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
TOTAL	17,586	15,430	14,582	12,875	11,360	9,815

3.27 It is expected that the level of resources will decrease over the financial period and it assumes in particular, that forecasted deficits on the General Fund will be financed from general reserves until budget savings are identified. When budget savings are identified, the level of resources will remain at a higher level.

3.28 Based on the estimated level of resources, the Council will continue to have sums invested throughout the year. In accordance with the Investment Strategy, this will continue to be held in short-term (less than 364 days) deposit accounts.

4.0 Detail

Prudential Indicators for Capital Expenditure and Borrowing

4.1 The Local Government Act 2003 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and in doing so, to calculate and monitor a set of prudential indicators. The Code and indicators should sit alongside the Council's main financial plan.

4.2 The prudential framework is designed to control the level of borrowing and investment activity at a local level. The indicators themselves either summarise the expected treasury activity, or place limits upon the activity. Together, these reflect the outcome of the Council's underlying capital expenditure and borrowing requirements.

4.3 A fundamental part of the Code is the requirement to adopt and utilise a Treasury Management Strategy. The Council's proposed strategy for 2017/18 is detailed in **Appendix 2.** The Prudential Indicators are detailed in **Appendix 1** with comments and analysis in the following sections.

Capital Expenditure and Financing

4.4 The approved capital programme is summarised in the following table.

Estimated Capital Expenditure	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
General Fund	4,464,091	3,721,566	821,165	606,000	606,000	656,000
HRA	5,700,000	1,800,000	1,843,000	1,888,000	1,935,000	1,983,000
TOTAL	**10,164,091**	**5,521,566**	**2,664,165**	**2,494,000**	**2,541,000**	**2,639,000**
Financed by						
Borrowing	406,000	0	0	0	0	0
Grants and Contributions	1,716,937	579,165	484,165	336,000	336,000	336,000
Council Resources	8,041,154	4,942,401	2,180,000	2,158,000	2,205,000	2,303,000
TOTAL	**10,164,091**	**5,521,566**	**2,664,165**	**2,494,000**	**2,541,000**	**2,639,000**

4.5 The table highlights that the 5-year investment programme is fully funded. It is expected that the borrowing requirement will be met internally. If all financing is not secured, expenditure will need to be curtailed or other resources and reserves identified.

4.6 Due to the current level of reserves and cash on deposit, current policy is that any longer term borrowing is undertaken only as a last resort to meet any shortfall; any new borrowing will only be undertaken prudentially within the Council's debt limits.

The Council's Borrowing Need or Capital Financing Requirement (CFR)

4.7 The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the net value of fixed assets contained in the Council's Balance Sheet.

4.8 Capital expenditure that has not been immediately paid for increases the CFR through additional borrowing, including internally. The CFR is reduced following debt repayment or through setting-aside revenue sums to repay internal borrowing.

4.9 The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge called the Minimum Revenue Provision (MRP). In addition, a Voluntary Revenue Provision (VRP) is made where borrowing has taken place on a prudential basis.

4.10 There is no requirement to make a MRP for the HRA. However, in future years, money will be set-aside to repay HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan.

4.11 A summary of the CFR estimates is shown in the following table.

Expected CFR	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CFR b/fwd	67,937	67,989	67,643	67,306	66,978	66,657
Add New Financing	406	0	0	0	0	0
Less MRP	-223	-214	-206	-197	-190	-182
Less VRP	-131	-131	-131	-131	-131	-76
Less Debt Repayment	0	0	0	0	0	-10,000
CFR c/fwd	**67,989**	**67,643**	**67,306**	**66,978**	**66,657**	**56,399**
General Fund Proportion	5,999	5,653	5,316	4,988	4,667	4,409
HRA Proportion	61,990	61,990	61,990	61,990	61,990	51,990
	67,989	**67,643**	**67,306**	**66,978**	**66,657**	**56,399**

4.12 The new financing in 2016/17 relates to a provision to fund the completion of the new build and property acquisition programme in the HRA. This has previously been approved in the HRA's Business Plan.

4.13 The VRP relates to the repayment of previous internal borrowing relating to the purchase of receptacles to extend the kerbside recycling scheme in 2013, together with the repayment of the internal borrowing for the Grove Hall Extreme Sports project.

4.14 The HRA CFR is projected to remain fairly static over the current financial planning period, subject to any new borrowing undertaken as highlighted previously.

The Use of the Council's Resources and the Investment Position

4.15 The Council has available at any one time, reserves and balances which are held to finance future expenditure commitments or to act as a contingency sum as recommended by the Council's Chief Finance Officer.

4.16 These balances are available for investment on a short-term basis in accordance with the Investment Strategy. The expected level of reserves and balances is shown in the following table.

Estimated Usable Reserves	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund	7,606	7,984	7,141	5,305	3,426	1,110
Earmarked	4,721	2,971	2,768	2,566	2,364	2,298
Capital Receipts and Grants	3,660	3,334	3,499	3,868	4,234	4,495
HRA	1,599	1,140	1,174	1,136	1,335	1,911
TOTAL	**17,586**	**15,430**	**14,582**	**12,875**	**11,360**	**9,815**

4.17 The above table shows that overall the level of resources is expected to decrease over the financial period and it assumes in particular, that forecasted deficits on the General Fund will be financed from general reserves until budget savings are identified. When identified, the level of resources will remain higher.

4.18 It is estimated that the current level of earmarked reserves will gradually be utilised over the financial period. The level of capital receipts is estimated to fluctuate due to the timing of receipts from council house and planned land sales, together with the timing of actual capital expenditure payments.

4.19 Based on this level of reserves, it is estimated that the Council will continue to have funds available for investment each year. In accordance with the Investment Strategy, these investments will continue to be held in short-term (less than 364 days) deposit accounts.

Limits to Borrowing Activity

4.20 The Council is required to set limits on overall borrowing (net of investments). This controls borrowing and ensures that the Council does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and the next two financial years.

4.21 A short term deviation is allowed for flexibility if a limited amount of borrowing was required to meet temporary shortfalls in cash flow. The estimated position is detailed in the following table.

Estimated Borrowing Compared to the CFR	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Gross Borrowing - HRA	57,829	57,829	57,829	57,829	57,829	47,829
Gross Borrowing - General Fund	0	0	0	0	0	0
Total Gross Borrowing	**57,829**	**57,829**	**57,829**	**57,829**	**57,829**	**47,829**
Total CFR	**67,989**	**67,643**	**67,306**	**66,978**	**66,657**	**56,399**

4.22 The above table shows that as gross borrowing is likely to remain below the CFR, the Council will comply with this Prudential Indicator.

The Authorised Limit for External Debt

4.23 This is the limit beyond which external debt is prohibited. It is the statutory limit determined under section 3(1) of the Local Government Act 2003 and is the debt cap for HRA self-financing of £66.853m.

The Operational Boundary for External Debt

4.24 This represents the expected external debt during the course of the year, but it is not a limit. It is designed to aid the Chief Finance to manage treasury activity on a daily basis and acts as an early warning sign of any potential issues. It includes a provision for temporary borrowing of £5m. The Limit and Boundary are summarised in the following table.

Debt Limits	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000

Authorised Limit - General Fund	5,999	5,653	5,316	4,988	4,667	4,409
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	62,423	62,423	62,423	62,423	62,423	52,423

Affordability Indicators

4.25 These indicators show the cost of borrowing and capital investment plans on the Council's finances, together with their impact on local taxpayers. This is detailed in the tables below.

Ratio of Financing Costs to Net Revenue Stream

4.26 This indicator shows the trend in the net cost of borrowing (allowing for investment income) against the net revenue stream, i.e. Council Tax for the General Fund and Rent Income for the HRA. Estimates are included in the Council's Medium Term Financial Plan (MTFP) and are shown in the following table.

Financing Ratios	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
General Fund						
Estimated Council Tax Income	4,747,044	4,942,217	5,106,415	5,275,137	5,448,498	5,626,613
Net Interest Receivable	-45,500	-18,500	-18,500	-18,500	-18,500	-18,500
Proportion	**-0.96%**	**-0.37%**	**-0.36%**	**-0.35%**	**-0.34%**	**-0.33%**
HRA						
Estimated Rental Income	12,457,000	12,381,270	12,286,000	12,109,000	12,358,000	12,854,000
Estimated Interest Payable	1,689,505	1,776,688	1,826,911	1,827,140	1,827,374	1,827,614
Proportion	**13.56%**	**14.35%**	**14.87%**	**15.09%**	**14.79%**	**14.22%**

4.27 With no debt on the General Fund, the indicator is negative. The ratio reflects the level of "gearing" - how much of the Council's revenue is tied up in borrowing costs. Although the proportion for the HRA is greater in percentage terms, this is a relatively fixed cost but affordable within the HRA's Financial Plan.

Impact of Capital Investment on Council Tax and Housing Rents

4.28 This indicator shows how much per year the costs of borrowing impact upon each household (at Band D Council Tax rate) in the District and for each council tenant (HRA).

Cost of Servicing Debt	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22

	£'000	£'000	£'000	£'000	£'000	£'000
Estimated Net Interest Received - General Fund	-45,500	-18,500	-18,500	-18,500	-18,500	-18,500
Estimated Band D Properties (per MTFP)	30,990	31,647	32,073	32,499	32,925	33,351
Cost per Band D Property	**-£1.47**	**-£0.58**	**-£0.58**	**-£0.57**	**-£0.56**	**-£0.55**

Estimated Net Interest Payable - HRA	1,689,505	1,776,688	1,826,911	1,827,140	1,827,374	1,827,614
Estimated Dwellings (per MTFP)	2,963	2,987	2,993	2,979	2,966	2,953
Annual Cost per Dwelling	**£570.20**	**£594.91**	**£610.50**	**£613.44**	**£616.21**	**£618.90**

5.0 Financial Implications

5.1 As detailed in the report.

6.0 Corporate Implications

6.1. None directly

7.0 Community Implications

7.1 None directly

8.0 Background Papers

8.1 Treasury Management in Public Services and the Code of Practice (Cipfa Publication – November 2011)

8.2 Local Government Act 2003 (Part 1)

8.3 Localism Act 2011 – Part 7 Chapter 3

Appendix1: LIST OF PRUDENTIAL INDICATORS 2016/17 to 2021/22

External Debt	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Debt 1st April	57,423	57,423	57,423	57,423	57,423	57,423
New Debt	0	0	0	0	0	0
Maturing Debt	0	0	0	0	0	-10,000
Debt 31st March	**57,423**	**57,423**	**57,423**	**57,423**	**57,423**	**47,423**
Annual Change in Debt	0	0	0	0	0	-10,000
Long-term Investments	0	0	0	0	0	0
Short-term Investments	11,000	8,000	5,000	4,000	4,000	2,000

Limits compared to Actual Debt	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Authorised Limit - General Fund	5,999	5,653	5,316	4,988	4,667	4,409
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Financing Requirement	67,989	67,643	67,306	66,978	66,657	56,399
Operational Boundary	62,423	62,423	62,423	62,423	62,423	52,423
Gross Debt	57,423	57,423	57,423	57,423	57,423	47,423
Debt Less Investments	46,423	49,423	52,423	53,423	53,423	45,423

General Fund - Net Indebtedness	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CFR	5,999	5,653	5,316	4,988	4,667	4,409
Estimated Reserves	12,327	10,956	9,909	7,871	5,790	3,408
Net Indebtedness	**-6,329**	**-5,302**	**-4,593**	**-2,883**	**-1,123**	**1,001**

HRA Limit on Indebtedness	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
HRA Debt Cap	66,853	66,853	66,853	66,853	66,853	66,853
HRA CFR	61,990	61,990	61,990	61,990	61,990	51,990
Difference	4,863	4,863	4,863	4,863	4,863	14,863
HRA Debt	57,423	57,423	57,423	57,423	57,423	47,423
Borrowing Headroom (Debt Cap minus Debt)	**9,430**	**9,430**	**9,430**	**9,430**	**9,430**	**19,430**

Interest Payable and Receivable	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund						
Interest Payable	0	0	0	0	0	0
Interest Received	46	19	19	19	19	19
HRA						
Interest Payable	1,680	1,772	1,822	1,822	1,822	1,823
Interest Received	-10	-5	-5	-5	-5	-5

Appendix 2

South Derbyshire District Council

Treasury Management and Investment Strategy 2017/18

February 2017

1.0 Introduction

1.1 The treasury management service is an important part of the overall financial management of the Council's activities. Supplemented by a series of Prudential Indicators, this helps to consider the affordability and impact of capital expenditure decisions, together with the associated borrowing and investment.

1.2 The treasury service considers the effective funding of these decisions. It forms part of the process that ensures the Council achieves a balanced budget requirement under the Local Government Finance Act 1992.

1.3 The Council's treasury activities are regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).

1.4 The Council has adopted the Code and as a result, has adopted a Treasury Management Policy Statement.

Reporting Treasury Management

1.5 A key requirement of this report is to explain both the risks and the management of those risks, associated with the treasury service. Updates on treasury activity are reported to the Finance and Management Committee on a quarterly basis.

1.6 A further annual report is produced alongside the final accounts each June to detail all activity for the year.

Responsibility for Treasury Management

1.7 The Finance and Management Committee is responsible for setting and monitoring treasury activity at the Council. Under its terms of reference, this includes ensuring that the Council does not breach its borrowing limit.

1.8 The Committee is advised by its Section 151 (Chief Finance) Officer who is the Director of Finance and Corporate Services. This Officer is responsible for the oversight of activity and to ensure that treasury strategy and associated policies are met.

1.9 The day-to-day operational activity is undertaken within the Financial Services Unit at the Council. The main officers who have responsibility for daily transactions are the Financial Services Manager and the Service Accountants.

1.10 The Authorising Officers for transactions are the Director of Finance, Financial Services Manager and the Client Services Manager. Any new borrowing or investment has to have the prior approval of the Director of Finance.

External Support for Treasury Activity

1.11 All designated officers involved in treasury activity are covered under the Council's insurance. Officers are also supported by external treasury advisors who provide research material, news bulletins, together with general advice and guidance.

Audit Arrangements

1.12 The Council's Internal Audit function audits treasury policies and procedures, together with treasury activity and transactions at least once per year. This is a requirement of External Audit. Any matters raised concerning any governance or control matters, are considered and monitored by the Council's Audit Sub Committee

Scrutiny and Training

1.13 Scrutiny is undertaken by the Finance and Management Committee as part of their role of agreeing policy and monitoring performance. The Audit Sub-Committee review internal audit reports regarding any procedural or wider control matters.

1.14 The Elected Members involved in reviewing Treasury Management have previously received training outside of formal reports and briefing papers. To strengthen the role of Members and to supplement their understanding, it is planned to deliver a further briefing/training session during the year for Members.

The Strategy

1.15 This strategy covers:

- The management of debt
- The Council's debt and investment projections
- The expected movement in interest rates
- The Council's borrowing and investment strategies
- Treasury performance indicators
- Specific limits on treasury activities
- Any local treasury issues

2.0 Debt and Investment Projections

2.1 The table below shows the expected debt position of the Council over the Medium Term Financial Planning (MTFP) period.

External Debt	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Debt 1st April	57,423	57,423	57,423	57,423	57,423	57,423
New Debt	0	0	0	0	0	0
Maturing Debt	0	0	0	0	0	-10,000
Debt 31st March	**57,423**	**57,423**	**57,423**	**57,423**	**57,423**	**47,423**
Annual Change in Debt	0	0	0	0	0	-10,000
Long-term Investments	0	0	0	0	0	0
Short-term Investments	11,000	8,000	5,000	4,000	4,000	2,000

2.2 A comparison of this estimated debt position with the various borrowing limits is shown below.

Limits compared to Actual Debt	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Authorised Limit - General Fund	5,999	5,653	5,316	4,988	4,667	4,409
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Financing Requirement	67,989	67,643	67,306	66,978	66,657	56,399
Operational Boundary	62,423	62,423	62,423	62,423	62,423	52,423
Gross Debt	57,423	57,423	57,423	57,423	57,423	47,423
Debt Less Investments	46,423	49,423	52,423	53,423	53,423	45,423

2.3 The above table shows that (gross) debt outstanding is expected to be comfortably below the Financing or underlying Borrowing Requirement (CFR) and well within the Authorised Limit (Debt Cap).

2.4 The Operational Boundary allows a temporary borrowing requirement of £5m. However, it is expected that the Council will continue to be a net lender of funds on a day-to-day basis.

Management of Debt

2.5 As approved by the Council, treasury activities are accounted within two separate pools. This involves splitting borrowing between the General Fund and the HRA and then allocating new loans to each pool as required.

2.6 This has been adopted for clarity and transparency and ensured there was no detriment to the General Fund on transition to HRA self-financing in 2012. Treasury Management decisions on the structure and timing of borrowing is made independently for the General Fund and HRA.

2.7 Interest on loans is calculated in accordance with proper accounting practice and allocated to either pool accordingly.

2.8 It is not anticipated that there will be a requirement to transfer loans between the two pools. Any proposals to do this will be considered and approved separately.

Internal Borrowing – Cash Management

2.9 Both the HRA and General Fund are likely to have surplus cash balances which will allow either account to have external borrowing below its Capital Financing Requirement.

2.10 The interest earned on all deposits is initially allocated to the General Fund with a proportion allocated to the HRA based on the average rate of interest earned on the average cash balances during the year.

Use of Financial Instruments

2.11 The Council does not use any type of derivative instruments, such as interest rate swaps or hedge accounting, to manage the risk of borrowing.

General Fund Debt

2.12 The General Fund does not currently have any actual debt outstanding and its underlying borrowing requirement is financed from reserves and balances as shown in the following table.

General Fund - Net Indebtedness	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CFR	5,999	5,653	5,316	4,988	4,667	4,409
Estimated Reserves	12,327	10,956	9,909	7,871	5,790	3,408
Net Indebtedness	**-6,329**	**-5,302**	**-4,593**	**-2,883**	**-1,123**	**1,001**

2.13 However, the table also shows that in 2021/22, the underlying indebtedness on the General Fund highlights a potential borrowing requirement. It has been assumed in the MTFP that the projected budget deficit on the General Fund will be financed from general reserves until budget savings have been identified.

2.14 During 2017/18, the Council will be addressing the projected deficit. Where reserves are not used, this will maintain balances at a higher level. However, this will be kept under review. If the net indebtedness does become positive, this may require some temporary borrowing at an additional cost, although this is not expected to occur until the end of the current planning period.

HRA and Limit on Indebtedness

2.15 Under self-financing, the HRA pool operates within a cap over which no actual borrowing is allowed. This is prescribed by the Government and is set at £66.853m.

2.16 The Cap is shown in the following table with a comparison to the CFR and expected level of actual debt on the HRA.

HRA Limit on Indebtedness	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
HRA Debt Cap	66,853	66,853	66,853	66,853	66,853	66,853
HRA CFR	61,990	61,990	61,990	61,990	61,990	51,990
Difference	4,863	4,863	4,863	4,863	4,863	14,863
HRA Debt	57,423	57,423	57,423	57,423	57,423	47,423
Borrowing Headroom (Debt Cap minus Debt)	**9,430**	**9,430**	**9,430**	**9,430**	**9,430**	**19,430**

2.17 The Financial Plan for the HRA includes provision for new borrowing to finance the completion of the New Build programme. It is expected that this borrowing will be undertaken internally between the General Fund and the HRA due to the current amount of reserves held by the Council.

2.18 The next debt repayment is a variable rate loan of £10m in 2021/2022. The HRA's Financial Plan allows for sums to be set aside from its revenue account, commencing in 2016/17, as a provision to repay this and future loans, in accordance with the debt maturity profile.

Revenue Implications

2.19 The Financial implications of the Council's expected debt management transactions have been included in the MTFP and are summarised in the following table.

Interest Payable and Receivable	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund						
Interest Payable	0	0	0	0	0	0
Interest Received	46	19	19	19	19	19
HRA						
Interest Payable	1,680	1,772	1,822	1,822	1,822	1,823
Interest Received	-10	-5	-5	-5	-5	-5

3.0 The Current Economic Situation and Outlook

3.1 Following the outcome of the Referendum to leave the European Union in June 2016, there was some volatility in financial markets, although this has since stabilised. The value of Sterling against other major currencies, such as the Euro and the American Dollar, remains lower compared to their value before the Referendum.

3.2 The value of Sterling has depreciated against the Euro and the Dollar by over 15% since the Referendum. Therefore, following the Referendum, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Base Rate to 0.25% from 0.5% in August 2016.

3.3 Over the last few months, economic indicators have highlighted growth continuing in accordance with market expectations, with several signs that the UK economy is proving resilient.

3.4 CPI inflation increased quickly between September and December 2016 from 0.6% to 1.6%. This relatively sharp increase, mainly as a consequence of the depreciation in Sterling, has increased the price of imports.

3.5 The medium-term outlook for the UK economy is now dominated by the negotiations to leave the EU. It is likely that the longer-term position will be dependent on future trade agreements with the EU and other countries.

3.6 It is considered by commentators that the upward rise in inflation due to the currency situation, will continue in 2017/18, exceeding the MPC's target of 2%. This should reduce domestic spending. The MPC's policy will not tolerate increased inflation for a sustained period. However, the currency-led increase in inflation may be ignored due to the potential negative effects of "Brexit" on economic activity that could arise from an increase in interest rates.

3.7 Therefore, the Council's treasury advisors consider that the Base Rate will remain at 0.25% for the foreseeable future with only a small chance that the rate may fall further.

Effect on the Council

3.7 Interest rates currently pose a low risk for the Council. Clearly, given a positive cash and reserves situation, with interest rates so low, returns on deposits are limited. However, the Council's MTFP is not based on interest rates rising to generate income to ensure a balanced budget. Therefore, if rates do rise, this should generate extra revenue in addition to that budgeted.

3.8 The Council's current long-term borrowing is fixed at relatively low rates, with the variable element of the debt currently costing 0.67% per year. The HRA's Financial Plan allows for this to rise to 3% to its repayment date in 2021/22.

Borrowing Strategy 2017/18 and the Longer-Term Plan

4.1 External debt outstanding totals £57.423m as at 31st January 2017. This relates wholly to the HRA. For many years, the Council has not entered into any other long-term borrowing arrangements and has managed new prudential borrowing internally through its cash reserves and balances.

4.2 This has proved to be a cheaper form of borrowing with interest rates historically low, which limits the interest earned by having those reserves on deposit.

Existing General Fund Debt

4.3 The General Fund has no external borrowing outstanding.

HRA Debt

4.4 Total debt outstanding is £57.423m. Of this debt, £10m is at a variable rate and is forecast to increase from 0.67% in September 2016 to 3% by 2021. The remaining balance of the debt is all at fixed rates, at an average of 3.19%.

4.5 This debt is due to mature periodically between 2022 and 2042. The HRA's Financial Plan allows for these repayments by setting-aside resources from 2016/17.

Debt restructuring

4.6 The HRA debt will be reviewed regularly with the Council's treasury advisors to ensure that the portfolio continues to suit the Council. It is possible that the Council will be in a position to repay debt earlier or may opt to reschedule some longer-term debt depending on prevailing interest rates.

4.7 Although this is not anticipated over the current MTFP it will be kept under review. Any early repayment or rescheduling decision will be based on a Net Present Value calculation taking into account the relevant premium or discount of repaying debt early.

Variable Rate Debt

4.8 As some of the debt is being borrowed at variable rates, this will be kept under closer scrutiny. The cost of this proportion of the portfolio (£10m) is currently contained within the resources of the HRA's Financial Plan.

4.9 The Plan assumes that the rate on this debt will rise from its current level of 0.67% per year to 1.5% in 2017/18, to 2.5% in 2017/18 and then up to 3% in 2018/19 through to maturity in 2021/22.

Additional Borrowing

4.10 The Prudential System for Capital Finance provides flexibility for local authorities to borrow within their overall limit. Effectively, councils can borrow money as long as they are able to demonstrate that the associated interest and principal repayments are affordable and sustainable within their longer-term financial resources.

4.11 Additional borrowing can also be undertaken on an “invest to save” basis, i.e. the cost of loan finance is met from the payback of the investment (efficiencies or additional income, etc.).

4.12 The Council has used the prudential system to finance 2 capital projects in 2013/14 (extending the Kerbside Recycling Scheme) and in 2015/16 for the development of the Extreme Sports Facility in the Grove Hall, Swadlincote. The costs and payback of this borrowing are included in the treasury indicators and the MTFP.

4.13 The Council is also planning to borrow prudentially to complete the New Build and property acquisition programme in the HRA. Provision for this internal borrowing is also reflected in the treasury indicators and MTFP as detailed in Section 2.

Borrowing in Advance

4.14 The Council will only borrow in advance of need if it is felt that the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. Any accounting matters and the general legality will also be considered on a case-by-case basis.

4.15 In summary, the key matters in the borrowing strategy for 2017/18 are as follows:

- Meeting the Council’s cash flow requirements through the Investment Strategy as detailed in Sections 6 and 7.

- Keeping under review the HRA debt pool and in particular the variable rate of borrowing.

5.0 Treasury Management Prudential Indicators and Limits on Activity

5.1 The purpose of these additional indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

5.2 However, if these are set too restrictively, they could impede the opportunity to reduce debt costs. The indicators are detailed in the following sections.

Upper limits on variable interest rate exposure

5.3 This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments. This is set at **5%** and is based on the affordability in the HRA Business Plan. This remains unchanged from that previously adopted.

Upper limits on fixed interest rate exposure

5.4 This is set at **4.5%** and again is based on the affordability of the HRA Business Plan. This also remains unchanged from that previously adopted.

Maturity Structure of Fixed Rate Borrowing

5.5 The current maturing structure of the HRA debt portfolio is as follows:

Under 12 months	0%
12 months to 2 years	0%
2 years to 5 years	0%
5 years to 10 years	35%
10 years and above	65%

5.6 Although all fixed rate debt is expected to be repaid beyond 10 years, this is spread so that each tranche is repaid at 5-yearly intervals between 2027 and 2042.

Total principal funds invested for greater than 364 days.

5.7 As the Council does not have any long-term investments, this indicator does not apply to the Council.

6.0 Investment Counterparty and Liquidity Framework

6.1 In accordance with Central Government guidance, the primary principle governing the Council's investment criteria is the security and liquidity of its investments. Once that principle is achieved, then yield and length of investment are considered. The Council will also ensure that:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

Specified Investments

6.2 The purpose of specified investments is to identify investments offering high security and high liquidity. These investments should be in pounds sterling and with a maturity of no more than a year. They are intended to be used with minimal procedural formalities. Any investments made with the UK Government, another local authority or parish council automatically qualify as specified investments.

6.3 In addition, short-term investments with institutions having "high credit ratings" will count as specified investments. The Guidance allows each council to determine these institutions and they must determine locally, investment limits, maximum periods and monitoring arrangements.

Non-Specified Investments

6.4 These are all other investments not meeting the criteria of specified investments. Due to the fact that these investments could carry more risk than specified ones, the Council needs to set stricter limits on these investments and determine guidelines on when they should be used.

6.5 The Guidance makes it clear that it does not wish to discourage authorities from using non-specified investments. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that do not carry such a high credit rating.

Credit Quality

6.6 The credit worthiness of counterparties remains paramount in any investment decision and this is reflected in the approved lending policy and counterparty list.

6.7 In 2014/15, the Council approved a fundamental shift in its lending policy. This moved away from a traditional model based solely on credit ratings, to that based on an assessment of a financial institutions' ability to incur losses before a depositor bail-in.

6.8 Besides this, the Council refers to the financial press, any implied Government support for banks and other market data. This is supplemented by information and advice from the Council's retained treasury advisors.

6.9 Based on these core principles, the strategy in Section 7 (below) has been proposed for adoption.

7.0 Investment Strategy 2016/17

7.1 The Council is expected to have a regular short-term investment requirement to enable it to manage its day-to-day financial affairs. There is no current proposal to enter into longer term and externally managed funds. Where the Council should need to borrow in advance of need, this investment strategy also applies.

7.2 The approved investment policy is based on a counterparty list that has been carefully considered to select those institutions with the best financial structure and the ability to incur losses before a depositor bail-in. This is based on economic data, together with analysis and advice from the Council's treasury advisors.

7.3 The list is kept under review and updated depending on the changing circumstances of selected counterparties.

7.4 The approved lending list and policy is detailed at **Appendix 3.** In accordance with regulations, it sets out where the Council will invest surplus funds and places limits upon the various institutions.

7.5 The proposed lending list has been updated based in information from the Council's treasury advisors and is relevant as at 31st January 2017. Any proposed changes are reported to the Finance and Management Committee on a quarterly basis.

7.6 A summary of the counterparties is shown in the following table.

Specified Investments	Non Specified Investments
• UK Debt Management Office (DMO) • Local, Police, Fire and Parish Authorities • HSBC	• Lloyds Bank • Bank of Scotland • Nationwide Building Society • Santander UK • Barclays Bank • Goldman Sachs International • Close Brothers • Leeds Building Society • Coventry Building Society • Foreign Counterparties (*AAA rated institutions subject to separate approval by the Section 151 Officer*) • Independent Building Societies *(subject to separate approval by the Section 151 Officer)*

General Lending Policy

7.7 Priority is given to specified investments in any investment decision. The length of investment is made in accordance with overall cash flow requirements.

7.8 The policy focuses on the credit quality of investment counterparties rather than amounts invested and returns.

7.9 Where regular investments are made with named financial institutions, this is generally undertaken via instant access accounts. This allows funds to be withdrawn at short notice if the financial situation of these institutions was to change. All other deposits, such as those with the DMO and other local authorities, tend to be on a fixed and longer-term basis.

Use of Non-Specified Investments

7.10 These are only used as a “lender of last resort.” In particular, this may be the case where limits on specified investments are likely to be exceeded and where there is a temporary need to place money.

7.11 It should be noted that the named counterparties are still considered to be fairly low risk for short-term deposits in accordance with the maximum limits and periods as set out in **Appendix 3**.

Use of Treasury Advisors (Arlingclose)

7.12 The Council uses a firm of advisors on a retained basis. Their role is to provide market analysis and advice, together with literature and updates on key treasury management developments. They do not offer any of their own or 3rd party products/instruments for borrowing or investing.

7.13 They also provide training workshops and seminars. They were appointed through the Council's procurement framework.

Performance Indicators

7.14 The main indicator is for the return on short-term investments to average, over the year, the Average 7-Day Money Market Rate. This is a standard measure of performance. Performance in recent years is shown in the following table.

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
7-Day Rate (target)	3.57%	0.39%	0.51%	0.62%	0.51%	0.47%	0.50%	0.50%
Actual Rate	4.38%	0.72%	0.78%	0.32%	0.31%	0.33%	0.31%	0.32%

APPENDIX 3

COUNTERPARTY LIST 2017/18

(As at February 2017)

Institution	Limit	Maximum Term
Specified Investments		
• UK Debt Management Office (DMO)	**£15m**	364 Days
• Local, Police, Fire and Parish Authorities	**£5m** with any one Authority	364 Days
Named Counterparty		
• HSBC	**£2m**	364 Days
Non Specified Investments		
Named Counterparties		
• Lloyds Bank • Bank of Scotland	**£2m** with any one Bank	364 Days
• Close Brothers • Santander UK / Abbey National Treasury Services	**£2m** with any one Bank	6 months
• Barclays Bank • Goldman Sachs International	**£2m** with any one Bank	100 days
• Royal Bank of Scotland /National Westminster Bank	**£1m** with any one Bank	35 days
• Nationwide Building Society • Coventry Building Society	**5% of total deposits**	6 months
• Leeds Building Society	**5% of total deposits**	100 days

Foreign Counterparties • AAA rated institutions (*subject to separate approval by the Section 151 Officer*) ***Independent Building Societies*** • *subject to separate approval by the Section 151 Officer*	**£1m** with any one Bank **£1m** with any one society	1 month 100 days