Committee:	Council	Agenda Item No.:	10
Date:	12 February 2014	Category	
Subject:	Treasury Management Strategy 2014/15 to 2016/17	Status	Open
Report by:	Assistant Director Finance, Revenues and Benefits		
Other Officers Involved:	Principal Accountant		
Director	Executive Director of Operations		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council		

RELEVANT CORPORATE AIMS
STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

TARGETS
None.

VALUE FOR MONEY
The Treasury Management activities of the Council will seek to minimise the cost of borrowing and maximise the return on cash investments within the context of the policies established by the Council's Treasury Management Strategy.

THE REPORT

1 Introduction

1.1 The attached Appendix sets out the Council's recommended Treasury Management Strategy in respect of the period 2014/15 to 2016/17. It needs to be considered alongside the report in respect of the Medium Term Financial Plan 2014/15 to 2016/17 which appears elsewhere on this agenda.

1.2. The details provided within the Appendix outline in greater detail the Treasury Management Principles concerning Borrowing, Investments, debt repayment, interest rates and capital expenditure which underpin the Council's Medium Term Financial Plan. These decisions are considered within the context of the requirement to comply with the requirements of the CIPFA Prudential Code which relies on the provisions of Part 1 of the Local Government Act 2003.

2. IMPLICATIONS

Legal Implications

2.1 Under the Treasury Management Code of Practice the Council is required to produce a Treasury Management Strategy before the start of each financial year which sets out the proposed treasury management activities and policy. This report complies with that requirement.

Financial Implications

2.2. These are covered throughout the attached Appendix.

Human Resources and Other Implications:

2.3. None arising directly from this report.

3. RECOMMENDATIONS

Council is requested to approve the following recommendations:

1. Approve the Capital Financing Strategy as set out within Appendix 1Table 1 and detailed in section 3 of that Appendix. In particular

   - Upon the completion of the second major land sale in 2013/14 the Council undertakes the repayment of £7.865m of prudential borrowing.
   - Prudential borrowing of up to £0.625m in 2013/14 and £1.362m in 2014/15 to finance capital expenditure on vehicle replacement, asset management and ICT infrastructure.

2. Approve the Borrowing Strategy as summarised in section 4.8 of this report and that Members note that no new long term external borrowing is planned over the term of the MTFP (2013/14 to 2016/17).

3. Approve the Minimum Revenue Provision policy for 2014/15 as set out in section 5.

4. Approve the Investment Strategy as set out in section 6.9 for Specified Investments and section 6.10 for Non Specified Investments.

5. Approve the use of the Sector Counterparty Weekly List to determine the latest assessment of the counterparties that meet the Council's criteria under section 6.9 and 6.10 before any investment is undertaken.

6. Approve the Prudential Indicators for 2014/15 detailed in section 8 and section 9 of this report and in particular:

	2014/15
Authorised Borrowing Limit	£114,199,000
Operational Boundary	£109,199,000
Capital Financing Requirement	£104,199,000

7. Consider and recommend any Member training requirements for 2014/15.

8. Note the contract position of the Council with the Co-Op bank and the intended tender period.

9. Note the business continuity arrangements in respect of the Council's bank arrangements which have been put in place during 2013/14 as outlined in section 10.5 of the attached Appendix.

ATTACHMENTS: **N**
FILE REFERENCE: **None**
SOURCE DOCUMENT: **Background papers held in Financial Services**

APPENDIX 1

TREASURY MANGEMENT STRATEGY – 2014/15 to 2016/17

THE REPORT

Explanatory Foreword

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy which requires approval by full Council prior to the commencement of each financial year. This report outlines the Council's proposed Treasury Management Strategy for the period 2014/15 to 2016/17 for consideration and approval by Council. It fulfils four key requirements:

- The Treasury management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

- Within the strategy the Council is required to include a number of prudential indicators covering the next three financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

- The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council.

- The report also includes an investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

1 Introduction

1.1 The objectives of the Treasury Management Strategy are as follows:-

- To outline the Council's debt position and the impact this has on the revenue accounts
- to enable Members to reach appropriate judgements on long-term and short-term borrowing and investment strategies
- to provide a framework within which the day to day liquidity of the Council's cash balances can be managed
- to provide some key baseline information to enable immediate reaction to changes in the money market to meet the statutory requirements of the

Local Government Act 2003
- to meet the requirements of the CIPFA Treasury Management Code of Practice.

1.2 This Strategy includes:

- An explanatory foreword
- An introduction
- An outline of the statutory powers relating to the Council's Borrowings
- A review of the Council's outstanding debt position
- A review of how the Council's debt is financed
- Minimum Revenue Provision Policy
- Investments
- Investments Strategy
- Interest rate projections
- The prudential indicators
- Treasury Management Operations
- Recommendations

2. <u>The statutory powers relating to the Council's Borrowings</u>

2.1 Before the report considers the full implications of the latest MTFP on the level of the Council's outstanding debt Members are reminded of the prudential code framework that applies to Local Government.

2.2 The Prudential Capital Finance System relies on the provisions of Part 1 of the Local Government Act 2003. The system commenced on 1 April 2004, replacing the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997.

2.3 The key objectives of the prudential code are to ensure that:-

- the capital investment plans of local authorities are affordable, prudent and at sustainable levels
- to ensure and demonstrate that the local authority is aware of its financial position and therefore able to take corrective action should it be in danger of failing to ensure the above
- to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability

2.4 By enabling a greater degree of local discretion the Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

2.5 The underlying principle of the Prudential Code is that local authorities are able to borrow without Government consent provided the authority can afford to enter into these commitments.

2.6 It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Authorised Borrowing Limit.

2.7 The Council must have regard to the Prudential Code when setting its Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax/rent levels is acceptable.

2.8 Whilst termed an Authorised Borrowing Limit, the capital plans that need to be considered for inclusion within that limit incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements (leasing). The authorised borrowing limit is required to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

2.9 Details of the Authorised Borrowing Limits are shown in Section 8.6 of this report.

3 <u>A review of the Council's outstanding Debt position</u>.

3.1 To establish the Treasury Management Strategy for the forthcoming financial year it is essential to understand the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance capital expenditure. The revised estimate of the CFR for 2013/14 and the estimated CFR for 2014/15 through to the end of 2016/17 are shown in table 1 below: -

Table 1

	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's
Capital Financing Requirement 1 April	**115,840**	**106,851**	**104,199**	**101,225**
Repayment of borrowing	(7,019)	0	0	0
Prudential Borrowing	625	1,362	1,170	766
Finance Leasing	0	0	0	0
Minimum Revenue Provision (MRP)	(529)	(446)	(625)	(815)
Minimum Revenue Provision Leasing	(66)	(68)	(19)	(19)
HRA Debt Repayment per HRA Business Plan	(2,000)	(3,500)	(3,500)	(3,500)
Capital Financing Requirement 31 March	**106,851**	**104,199**	**101,225**	**97,657**

3.2 Prudential Borrowing - Debt Repayment

The Council has previously determined that following the completion of two major land sales that £7.865m of prudential borrowing undertaken in respect of capital expenditure incurred in 2012/13 and 2013/14 will be repaid. These receipts are required to fund outstanding commitments on the General Capital Programme from 2012/13 and 2013/14 in relation to the purchase and refurbishment of Clowne Campus, the disposal of Sherwood Lodge, vehicle replacements and other capital schemes (total £7.865m). The first of these receipts has been achieved with the second receipt anticipated before the end of the current financial year. On the basis of the current approved expenditure once both these receipts have been secured and the relevant prudential borrowing has been repaid then the Council should have between £2.5 and £2.7m of uncommitted resources available to finance capital expenditure for 2013/14 and future financial years. Officers have drawn together the above CFR calculations based on the reasonable assumption that this receipt will be received within the 2013/14 financial year. Should the receipt not be received before the end of the current financial year then the MTFP and this Treasury Management Strategy will need to be reviewed accordingly.

3.3 Prudential Borrowing – 2013/14

Prudential borrowing of an estimated £0.625m is estimated to be required during 2013/14 to finance the vehicles replacement (£0.198m), ICT investment (£0.035m), Private Sector Schemes (£0.241m) and other capital schemes (£0.151m) incurred during the year. Council has previously determined that these schemes shall be financed from prudential borrowing. There is anticipated to be between £2.5m and £2.7m of available capital receipts at 31 March 2014 that could be used to finance this expenditure however, it is considered that these available receipts (once secured and the scheduled debt repayments made) should be held by the Council while it considers its future plans regarding the Growth Strategy, the asset stock condition survey and other potential capital investments. However, it is still an option for the Council to finance some of the General Fund capital expenditure schemes that are initially earmarked for prudential borrowing from the useable capital receipts thus avoiding interest and MRP charges on the General Fund.

3.4 Prudential Borrowing 2014/15

In 2014/15 prudential borrowing of £1.362m will be required in order to finance vehicle replacements (£0.826m), asset management plan expenditure (£0.500m) and the balance on the ICT infrastructure (£0.036m).

3.5 Prudential Borrowing – future years

In 2015/16 (£1.170m) and 2016/17 (£0.766m) the forecast prudential borrowing is limited at this stage to finance asset management plan expenditure and vehicle replacement.

3.6 Leasing

The Council has no current plans to undertake any leasing that is required to be treated as finance leasing over the period of the MTFP (i.e. treated as outstanding debt on the balance sheet). In particular this reflects the decision to switch from finance leases to prudential borrowing to finance vehicle purchases. It should be noted that the impact on the CFR would be broadly the same irrespective of whether borrowing or finance leasing is used to finance these acquisitions.

3.7 Lease Repayments

The Council still holds a number of finance lease agreements for operational vehicles and equipment. This sum represents the principal repayments that will be made during 2013/14 and future years and equates to the MRP charge that is made to the General Fund. On the basis of current plans these leases will be extinguished during the 2016/17 financial year.

3.8 Minimum Revenue Provision (MRP)

The MRP is the amount of principal repayment on the debt outstanding being made by the Council in the financial year and is the sum charged to the revenue accounts (General Fund and HRA). The MRP policy is discussed in detail in section 5.5.

3.9 HRA Debt Repayment

The Council completed the HRA self financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Within the HRA business plan and HRA budgets there is a sum set aside to repay the outstanding debt over a 30 year period. In the original plan the debt repayment was not planned to commence in the first two years until officers were comfortable that the HRA was established on a sound financial basis. Officers are now able to recommend that debt repayment is set at £2m for 2013/14 and then increased to the full required repayment level of £3.5m in 2014/15 and future years. The debt repayments will reduce the outstanding debt of the HRA and the amount of interest charged. It also has the impact of increasing the headroom available between the HRA outstanding debt and the debt ceiling (£112.350m) which allows opportunities for financing future HRA schemes from prudential borrowing.

3.10 Summary of Capital Financing Strategy

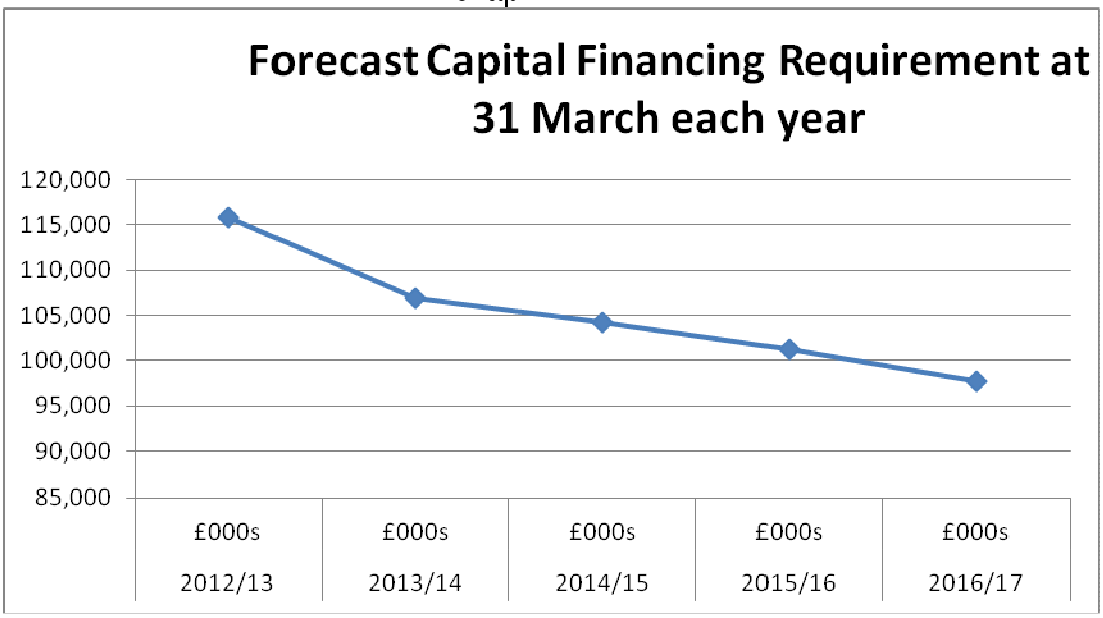
The capital financing strategy is driven by the Council's capital expenditure plans and available resources. The detailed capital expenditure plans are contained within the main MTFP report that appears elsewhere on this agenda.

The outstanding debt of the Council is forecast to reduce significantly in 2013/14 due to the repayment of debt relating to 2012/13 and 2013/14 for Project Horizon, vehicles replacement and other capital expenditure which was temporarily financed from prudential borrowing. This agreed repayment (£7.865m) is dependent on the Council successfully completing the second of two major asset sales in 2013/14.

The Housing Revenue Account is forecast to be in a position to set its repayment of the self financing settlement debt at the full level required to repay the debt over the 30 year business plan period. This position has been achieved earlier than originally planned which will reduce interest costs to the HRA and provide wider financing options for future schemes.

The graph below shows the forecast Capital Financing Requirement for the Council at the year- end point for the current and next three financial years covered by the MTFP.

Graph 1



4 **How the Council's debt is financed**

4.1 The Capital Financing Requirement as set out above calculates the authorities underlying need to borrow for capital purposes. Arising out of the analysis of the debt position the Council can determine how this debt is financed. The CFR also helps to ensure that where an authority is undertaking long term borrowing that such borrowing is being utilised in order to fund capital expenditure, and is not being used inadvertently or otherwise to fund revenue expenditure.

4.2 Table 2 below outlines the current and planned debt financing arrangements over the term of the MTFP.

Table 2

	2013/14 £000's	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**
PWLB	105,100	104,100	104,100	100,100
PWLB early repayment requirements	0	0	(3,000)	(2,500)
Leasing Arrangements	107	39	19	0
Internal Borrowing	1,644	60	106	57
Temporary Borrowing	0	0	0	0
Capital Financing Requirement	**106,851**	**104,199**	**101,225**	**97,657**

4.3 PWLB Loans

The level of external Public Works Loan Board (PWLB) loans will reduce by £1m in 2014/15 and £1m in 2016/17 as short term loans mature. Under the current financing plans these loans will not be required to be replaced as the CFR (table 1) forecasts a continued reduction in outstanding debt over the period. What is clearly evident is that the earlier and higher than originally planned HRA debt repayment is reducing the CFR at a quicker rate than the external PWLB debt matures. This may create a problem in 2015/16 and 2016/17 as it would mean that external PWLB borrowing would be above the Council's CFR. This in effect means that the Council is borrowing more than it needs to finance its outstanding debt. If this is the case the Council will need to consider undertaking some early external debt repayment to the PWLB. If no other changes are made to the existing capital programme and associated borrowing requirements then the Council will need to consider the early repayment of £3m in 2015/16 and a further sum of £2.5m in 2016/17 if it wishes to avoid exceeding the overall CFR. However, officers are mindful of the potential impact of the HRA and General Fund stock condition surveys commissioned by the Council, the development of the Growth Strategy and the increased demand for affordable housing. Some of these areas may result in capital schemes being approved in the coming year by the Council that would require an increase in prudential borrowing. If this is the case then the level of CFR will increase and the potential over borrowing issue may be resolved. Officers will track this issue during 2014/15 and into 2015/16 and report back any actions that need to be undertaken by the Council.

Table 3 below outlines the PWLB debt maturity profile of existing PWLB loans as 31 March 2015.

Table 3

PWLB BORROWING **Term**	**Maturity Profile 31 March 2015 £m**
12 Months (2016/17)	1.0
1 - 2 years	1.0
2 - 5 years	5.0
5 - 10 years	39.1
10 - 15 years	23.0
Over 15 years	35.0
Total PWLB Debt	**104.1**

4.4 Leasing Arrangements

The current leasing arrangements relate to vehicles and equipment utilised in the provision of services. The move away from leasing to prudential borrowing as a means of financing the vehicle purchase is reflected in the reduction each year of outstanding leasing balance as the lease is repaid and not replaced. All current finance leasing arrangements will come to an end during 2016/17. While prudential borrowing is currently a more advantageous method of financing the acquisition of vehicles and similar items officers will continue to keep the position under review.

4.5 Internal Borrowing

The balance between the CFR and the external borrowing (PWLB and Leasing) is made up from the utilisation of internal cash balances held by the Council. This effectively avoids the Council having to borrow money from external sources.

The forecast rate of reduction in the Council's CFR means that the Council is less and less reliant on its internal balances to finance capital expenditure over the next few years. This means that these balances will be available for investment purposes. Current investment interest rates continue to remain very low in the money markets and finding suitable counterparties that match our strict lending criteria is also difficult at the present time. The forecast cash flow position is that balances of up to £25m may be available for investment during 2014/15 and future years. Again this level will depend on the future capital investment plans discussed in 4.3 above. The investment strategy is examined in detail in Section 6 of this report.

The internal cash balances are made up from the General Fund Reserve, HRA balances, Provisions and Earmarked Reserves and any positive cash flows from within the main accounts of the Council.

4.6 Where the Council has internal borrowing it is required under accounting regulations to ensure that the funds of the relevant accounts (HRA and General Fund) are treated equitably. The internal balances of the General Fund and the HRA are therefore paid an interest rate to reflect the level of internal borrowing from each of these main accounts. The Council will apply the short-term interest rate (London Interbank Three Month Bid (LIBID)) to internal borrowing balances.

4.7 Temporary Borrowing

It may be necessary at times to undertake some very short term temporary borrowing during the year to ensure the Council has sufficient liquidity to meet day to day cash flow requirements. This is most likely to arise as available cash flow balances diminish during February and March i.e. a lower level of Council Tax receipts are received in this period. Also, whilst the Council waits for the anticipated capital receipt from the sale of assets it may be required to cover any liquidity shortfall from temporary borrowing.

4.8 Summary of the Proposed Borrowing Strategy 2014/2015

- The repayment of the £1m PWLB loan in 2014/15 will be met from the funds set aside within the HRA to repay debt. No new PWLB borrowing will be undertaken in 2014/15.
- Leasing debt will continue to be repaid in accordance with existing contractual arrangements.
- Temporary Borrowing will only be utilised where short term cash flow shortages occur.
- Internal balances will be utilised to reduce the need for external borrowing where possible, however, the forecast increase in available balances for investment will require careful management (see Investment Strategy later in report).
- Officers will monitor the position with regard to the external borrowing exceeding the CFR during 2014/15.
- The debt financing arrangements as outlined in Table 2 are approved.

5 Minimum Revenue Provision Policy

5.1 The Council is required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge against the revenue accounts of the Council. Details of the proposed MRP levels for 2014/15 are shown below:

For capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure the Minimum Revenue Provision policy will be:

- **Existing practice** - Minimum Revenue Provision will follow the existing practice outlined in former CLG Regulations (Option 1), capital financing requirement minus “adjustment A” multiplied by 4%.

From 1 April 2008 for all capital expenditure funded by borrowing the Minimum Revenue Provision policy will be:

- **Asset Life Method** - Minimum Revenue Provision will be based on the estimated life of the assets.

In the case of finance leases the Minimum Revenue Provision would be regarded as met by a charge equal to the element of the charge that goes to write down the balance sheet liability.

5.2 HRA Debt Repayments

There is no statutory requirement for the Council to set an MRP in relation to HRA debt. The budgetary provision to repay HRA debt which is proposed for the period of the MTFP is effectively a voluntary MRP arrangement.

5.3 Leased Assets

The current level of anticipated MRP in respect of leased assets along with the year end liability is set out in table 4 below:

Table 4

	2013/14 £000's	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**
Finance Leases				
Leasing Liability 1 April	172	106	38	19
Less MRP	(66)	(68)	(19)	(19)
Add New Finance Leases	0	0	0	0
Leasing Liability 31 March	106	38	19	0

5.4 Summary of MRP policy arrangements for 2013/14 and 2014/15

Table 5

	MRP 2013/14 £'000	**MRP 2014/15 £'000**
General Fund		
Existing Practice	201	193
Asset Life	328	253
Leased Assets	66	68
Total – General Fund	**595**	**514**
Housing Revenue Account		
Voluntary Debt Repayment	2,000	3,500
Total – HRA	**2,000**	**3,500**

6 Investments

6.1 The Council monitors its day to day cash flow and forecasts when surplus cash flows will be available for investment during the financial year. This section of the Treasury Management Strategy informs Members of the main principles governing the Council's investment criteria.

6.2 The prime consideration when it comes to investments is first of all the security of the investment closely followed by the liquidity of the investment. Subject to adequate security and liquidity then the yield or return on the investment becomes a consideration.

6.3 In order to ensure that the key principles of security and liquidity are adhered to the Council needs to ensure the following.

- 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 which have been reported separately. This is set out in greater detail in the section on the Liquidity of Investments below.

- That it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and for monitoring their security. Further details are provided in the Specified and Non-Specified investment sections below.

6.4 <u>Security of Investments</u>
External treasury management advisors Capita (formerly called Sector) are engaged by the Council to provide regular updates on the counterparties who meet the Council's investment criteria. Capita have now set up a comprehensive assessment and monitoring criteria process covering the counterparties used by the Council to place investments. The process involves the Council receiving a weekly list from Capita detailing their current assessment of all the main counterparties in the money markets. The list utilises the latest ratings from all the main credit rating agencies and supplements this further with information on trading on insurance instruments which Capita use to monitor early warning signals of individual counterparties. The counterparties are all colour coded, based on the risk assessment applied, and each colour represents the maximum period of investment for each counterparty. The weekly list is also supplemented with daily alerts, if required, on changes to the ratings on individual counterparties. It is proposed that the Council continues to use the Capita weekly counterparty listing to assess the status of individual counterparties for investment purposes.

6.5 <u>Liquidity of Investments</u>
The Council will consider and carefully balance the use of specified investments (less than one year) and non-specified investments (greater than one year) to ensure there is appropriate operational liquidity (i.e. that it has sufficient funds to meet the expenditure incurred).

6.6 Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority (excluding parish councils).
4. An investment scheme that has been awarded a high credit rating (where a borrower (or its parent) is required to have a minimum F1 or equivalent short-term credit rating).
5. A body that has been awarded a high credit rating by a credit rating agency (see 4 above) such as a bank, building society or money market fund.
6. Rated Building Societies from the top 20 Building Societies.
7. Non UK banks domiciled in a country which has a sovereign long term rating of AA+.

6.7 Non-Specified Investments

The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. Under the Prudential Code the Council is required to review and set limits for the maximum level of long term investments over the forthcoming three years. These limits are part of the mechanisms which ensure that the Council has sufficient funds to meet its expenditure requirements over the period in question.

6.8 Non-specified investments are any other type of investment:

1. Supranational Bonds greater than 1 year to maturity

(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

(b) A financial institution that is guaranteed by the United Kingdom Government -The security of interest and principal on maturity is on a par with that of the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

2. Gilt edged securities

Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category 1 above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

3. Building Societies not meeting the basic security requirements under the specified investments.
The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. These would include the non-rated building societies from the top 20 building societies.

4. Any bank or building society that has a minimum long term credit rating of A- and above. For deposits with a maturity of greater than one year.

5. Any non rated subsidiary of a credit rated institution included in the specified investment category.

6. Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. However this category of investments may be used for a treasury management purpose not related to a service, and in this instance will not be considered as capital expenditure.

6.9 Specified Investments Strategy

Specified Investments (less than 12 months) can be made with the counterparties covered by the list in Section 6.6. The Council however is also advised to overlay the following criteria which are designed to minimise risk as set out below:

Who we will invest our money with:

- UK Government
- Top rated UK banks (including part Nationalised Banks)
- The top 20 UK building societies
- Other local authorities (excludes Parish Councils)
- AAA rated money market funds
- Co-Operative Bank
- Non UK banks domiciled in a country which has a sovereign long term rating of AA+.
- All the counterparties above must meet the strict assessment criteria applied by Capita before any investment is made.

Limits and Controls on these investments

- A limit of £5m to be invested with any individual counterparty.
- A limit of £5m to be invested in any individual AAA rated money market fund.
- Co-Operative bank – limited to overnight cash balances up to £3m
- All lending subject to "on the day" credit checks against the Capita weekly list of counterparty ratings.

6.10 Non Specified Investments Strategy

Given the level of funds at its disposal it is appropriate that the Council gives consideration to the use of non specified investments (investments for a period of over 12 months) as these will generally secure better rates of return without significantly compromising the security of our funds. These instruments will, however, only be used where the Council's liquidity requirements are safeguarded.

With regard to non specified investments it is recommended that the following controls should be put in place:

- The overall level of investment in non specified instruments will be limited to one of £7m (£3m in 13/14 - Increased investment balances forecast).
- The counterparties which may be used will be limited to those listed in section 6.9 above.
- No more than £5m as an overall investment limit with any counterparty (i.e. the Council will not invest more than £5m with any counterparty be it specified or non specified investments or both).
- Given that the Co-operative bank is the holder of the Council's bank account no non-specified investments will be placed with that institution as it would make it very difficult to limit our level of risk in respect of that bank.

7 Interest rate projections

7.1 Officers have made the following base rate assumptions with regards interest rates over the term of the MTFP

2013/14	0.40%
2014/15	0.40%
2015/16	0.40%
2016/17	0.78%

It should be noted that the current Bank Base Rate is 0.5%

8. The Prudential Indicators

8.1 In putting together the Medium Term Financial Plan the Council has had regard to the requirements of the Prudential Code.

8.2. The following are the prudential indicators that have been calculated in respect of this period:-

8.3 Ratio of financing costs to the net revenue stream

This indicator identifies the trend in the cost of capital (interest on borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 6

	2014/15 Estimated	2015/16 Estimated	2016/17 Estimated
GF	5.89%	7.82%	11.00%
HRA	38.31%	38.46%	37.94%

The estimates of financing costs include current commitments and the proposed Capital Programme.

The General Fund ratio reflects that the borrowing costs in relation to Council Tax and Government Grant will increase in 14/15 and future years due to the reduction in direct Central Government grant that the Council receives.

The HRA ratio is high as a result of the increased interest charges following the transfer of external debt to the Council as a result of the HRA reforms. It begins to reduce as the impact of the rent convergence proposals provides additional income to the HRA however this reduction is offset as the full budgeted debt repayments from the HRA are made. Council should note that one of the key issues addressed by the 30 Year HRA Business Plan was that of the affordability of the projected level of the HRA debt. The Business Plan demonstrates that the Council's Housing Revenue Account is financially sustainable taking into account the increased level of borrowing.

8.4. Impact on Council Tax and Rents from prudential borrowing.

This indicator measures the impact of prudential borrowing on the revenue accounts of the Council. The indicator takes the cost of the principal (MRP) and interest charges arising from any new borrowing and calculates how much Council Tax is required to cover these costs.

In relation to the General Fund the capital programme has prudential borrowing planned for vehicle replacement, asset management and ICT infrastructure.

It should be noted that the MRP and interest charges in relation to vehicle replacement simply replaces the leasing charges previously paid when vehicles were leased.

Table 7

Impact on Council Tax	2013/14	2014/15	2015/16	2016/17
Borrowing Amount	£0.625m	£1.362m	£1.170m	£0.766m
Planned Prudential Borrowing	£6.20	£9.04	£5.51	£4.69

There is no planned prudential borrowing for the HRA from 2013/14 through to 2016/17, and accordingly no figures are provided in the above table with respect to that account.

8.5. Authorised Borrowing Limit

The Authorised Limit for External Debt sets out the maximum level of borrowing which a local authority should enter into, and it covers both borrowing for capital purposes and borrowing for temporary purposes to cover any potential shortfall of revenue cash flow. The limit is set as £10m above the forecast CFR levels.

Table 8

	2013/14 Revised £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Authorised Borrowing Limit	116,851	114,199	111,225	107,657

The linking of the Authorised Borrowing Limit to the movement in the Capital Financing Requirement means that the limits remain relevant to the Council in each year of the MTFP. The reduction shown in the table therefore reflects the debt repayments planned within the CFR between 2013/14 to 2016/17.

8.6. Operational Boundary

The Operational Boundary is intended to provide a management tool which helps to assess whether the authority's level of borrowing is in line with its agreed Medium Term Financial Plan and in particular the capital expenditure and capital financing plans. In normal operating circumstances the level of borrowing should not exceed the Operational Boundary. The figures above are set at £5m below the authorised limit.

Table 9

	2013/14 Revised £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Operational Boundary	111,851	109,199	106,225	102,657

9. **Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services**

9.1. One of the key indicators to ensure that a Council demonstrates sound treasury management practice is compliance with the CIPFA Code of Practice for Treasury Management in the Public Services. This Council has complied with the Code since its introduction on 1st April 2004, and one of the key purposes of the current report is to demonstrate continued compliance with the Code.

9.2. Interest Rate Exposures

In determining its borrowing policy the Council has a choice between opting for fixed or variable interest rates. While variable interest rates are generally cheaper in the short term by their very nature these rates can move up or down in relation to the wider movements on the money markets. While a greater reliance on variable rates will obviously tend to reduce costs in the short term, it does leave the authority open to fluctuations in market interest rates.

9.3. In order to protect local authorities against unforeseen fluctuations in interest rates the Prudential Code requires that all authorities establish the following ratios: -

An Upper limit for borrowing that is at fixed rates less investments that are fixed rate investments.

An Upper limit for borrowing that is at variable rates less investments that are variable rate investments

These prudential indicators are designed to ensure that the authority considers the risk that fluctuations in the levels of interest rate can create an unexpected or unbudgeted burden on the authority's finances, against which the authority has to protect itself adequately.

9.4. With respect to Bolsover District Council it is recommended that the Council continues to adhere to the limits set out below:

Table 10

	Upper Limit Fixed Interest Rate	**Upper Limit Variable Interest Rate**
2013/2014 revised	100%	45%
2014/2015	100%	45%
2015/2016	100%	45%
2016/2017	100%	45%

The variable rate percentages are a significant increase on original 2013/14 rates (previously set at 10%) as it has now been clarified that any investments in money market funds should be treated as variable rate investments and not fixed investments. The percentage figure is relatively high as the Council has three triple A rated money market funds available for investments and in total there could therefore be a maximum of £15m invested in these accounts.

9.5. Maturity Structure of Borrowing

Amount of projected borrowing that is fixed rate maturing in each period

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt that need to be replaced over a relatively short period of time. This ensures that an authority does not find itself in a position of having to replace a large proportion of its debt at a time when interest rates are adverse or uncertain.

Table 11

	Lower Limit	**Upper Limit**	**Forecast Position at 31 March 2015**
Under 12 months	0 %	20 %	0.96%
12 months and within 24 months	0 %	40 %	0.96%
24 months and within 5 years	0 %	60 %	4.8%
5 years and within 10 years	0 %	80 %	37.56%
10 years and above	0 %	100 %	55.72%

9.6. Upper limit for principal sums invested for periods longer than 364 days
The risk inherent in the maturity structure of the authority's investment is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance.

9.7. Where the authority invests, or plans to invest for periods longer than 364 days, the authority is required to project the maturing of such investments. The authority is required to set an upper limit for the total principal sum invested to final maturities beyond the period end less projected cash balances in the period.

9.8. In line with the current policies in respect of non specified investments (see Section 6.1) it is proposed that this prudential indicator will be set at £7m for 2013/14 revised and 2014/15 based on increased cash balances being available for investment. The financial years 2015/16 and 2016/17 are set at a lower levels as the forecast cash balances position is harder to predict at this stage.

Table 12

Year	Limit of investments maturing beyond the year end
2013/2014 revised	£7 million
2014/2015	£7 million
2015/2016	£3.5 million
2016/2017	£0 million

In practice this indicator means that the Council could:

- In 2013/14 invest up to £7m to 31 March 2016 (approx 2 years)
- In 2014/15 invest up to £7m to 31 March 2016 (maximum period of just under two years)
- In 2015/16 invest up to £3.5m to 31 March 2017 (maximum period of just under two years)
- In 2016/17 no investments to go past 31 March 2017.

10 Treasury Management Operations

10.1 Treasury Management Advisors

As mentioned earlier the Council uses Capita (formerly known as Sector) as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies;

10.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

10.3 Member and Officer Training

It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Council has addressed some of these requirements by:

a. Members' individual training and development needs are addressed by personal development plans.

b. Officers attend training seminars held by Capita and CIPFA.

Member views are sought about organising a specific treasury management training event during 2014/15 for those charged with monitoring and scrutinising treasury management. Should this be considered as a definite training requirement then officers will liaise with our current advisors to facilitate and organise a suitable training session.

10.4 Co-Operative Bank

Members will be aware that the Council's bank (the Co-operative Bank) has indicated that in the future it will no longer be providing banking services to local government. All existing contracts will be honoured and during the run off period of these contracts should a council wish to transfer to a new provider then this can be undertaken with the approval of the bank. The Council's existing contract with the Co-Op runs until March 2017 and officers are currently planning to undertake a banking tender that commences in February 2015 with a view to a 1st September 2015 changeover date.

10.5 Business Continuity Arrangements

As part of the Councils business continuity arrangements officers have sought to set up and provide alternative banking arrangements for the Council should they be required at short notice. These arrangements effectively mean a separate bank account is in place with the required security controls and appropriate officer access to undertake transactions. This account is with Barclays Bank and will only be activated should a business continuity need or similar issue arise.

RECOMMENDATIONS

Council is requested to approve the following recommendations:

1. Approve the Capital Financing Strategy as set out within Table 1 and detailed in section 3 of this report. In particular

- Upon the completion of the second major land sale in 2013/14 the Council undertakes the repayment of £7.865m of prudential borrowing.
- Prudential borrowing of up to £0.625m in 2013/14 and £1.362m in 2014/15 to finance capital expenditure on vehicle replacement, asset management and ICT infrastructure.

2. Approve the Borrowing Strategy as summarised in section 4.8 of this report and that Members note that no new long term external borrowing is planned over the term of the MTFP (2013/14 to 2016/17).

3. Approve the Minimum Revenue Provision policy for 2014/15 as set out in section 5.

4. Approve the Investment Strategy as set out in section 6.9 for Specified Investments and section 6.10 for Non Specified Investments.

5. Approve the use of the Sector Counterparty Weekly List to determine the latest assessment of the counterparties that meet the Council's criteria under section 6.9 and 6.10 before any investment is undertaken.

6. Approve the Prudential Indicators for 2014/15 detailed in section 8 and section 9 of this report and in particular:

	2014/15
Authorised Borrowing Limit	£114,199,000
Operational Boundary	£109,199,000
Capital Financing Requirement	£104,199,000

7. Consider and recommend any Member training requirements for 2014/15.

8. Note the contract position of the Council with the Co-Op bank and the intended tender period.

9. Note the business continuity arrangements in respect of the Council's banking arrangements which have been put in place during 2013/14 as outlined in 10.5

ATTACHMENTS: **N**
FILE REFERENCE: **None**
SOURCE DOCUMENT: **Background papers held in Financial Services**