Council
22 February 2017

TREASURY MANAGEMENT STRATEGY 2017-18

Councillor Mordue
Cabinet Member for Finance, Resources and Compliance

1 Purpose

1.1 This report is being presented as the Council is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These Statements and Strategy are attached in appendix A.

2 Recommendations/for decision

2.1 To approve the Treasury Management strategy for 2017/18 as detailed in Appendix A2-4.

2.2 To approve the Prudential Indicators as detailed in Appendix A5.

2.3 To approve the Minimum Revenue Provision policy statement as detailed in Appendix A6.

3 2017/18 Treasury Management Strategy

3.1 The annual Treasury Management Strategy is attached as Appendix A and includes the Prudential Indicators that are used as part of the self governance framework. The paragraphs below highlight the Prudential Indicators that need to be determined along with some changes to the strategy.

3.2 The limits and indicators that the Authority is required to determine by the code are:

Capital and Debt Indicators

Capital Expenditure - Represents the agreed Capital Programme and sets out the planned capital expenditure over the next three years.

Affordability Index - This is the proportion of the Authority's income which is taken up by loan repayments and interest. The more the Authority borrows the less is available for delivering services.

Capital Financing Requirement - The amount the Authority needs to borrow in order to deliver its Capital Expenditure plans.

Authorised Limit - The combined maximum amount the Authority can take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes

Operational Limit - The amount the Authority realistically expects to borrow and represents the figure that the Authority would not expect to exceed on a day to day basis.

Treasury Management Indicators

Exposure to Interest Rate Risk - The maximum proportion or borrowing which can be on either fixed or variable interest rates. By setting a maximum proportion a limit is placed on the amount by which the Authority's finances will be affected by movements in base rates.

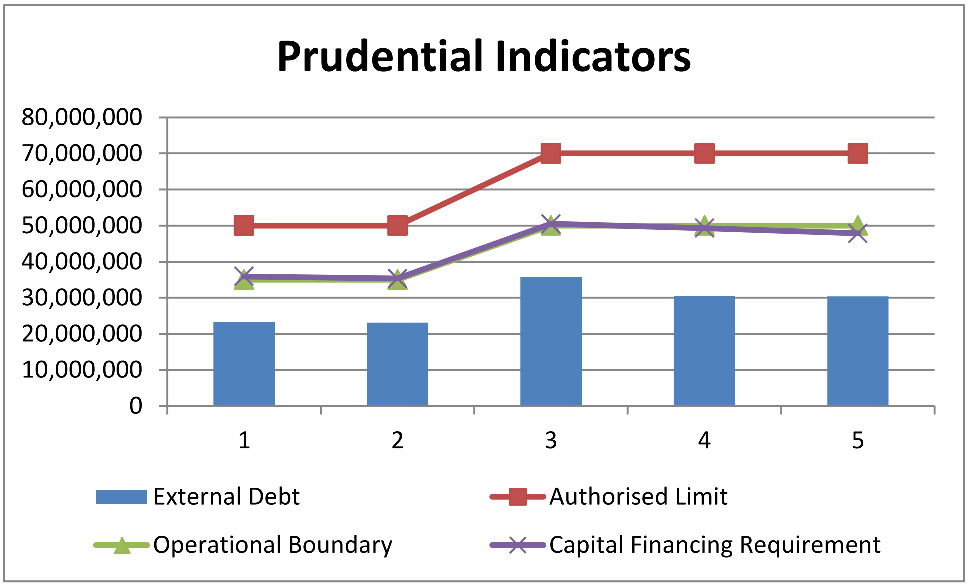
Maturity Profile - The maximum length of time over which borrowing can be taken. Authorities can borrow for any length providing that they can afford to do so.

3.3 There has been a couple of changes to the 2017/18 strategy to take account of the changes to the Capital Programme and the need to increase the number of potential counter parties.

3.4 The Capital Programme now includes the scheme to refurbish the Pembroke Road depot, the cost of which is to be met from borrowing. As a result there is a need to increase both the Operational and Authorised Limits otherwise the total borrowing will exceed the current limits. Increasing the limits also allows for any short term borrowing that may be required as a result of changes in cash flow. It is not envisaged that there will be a need to take any short term borrowing in 2016/17 and 2017/18.

3.5 The table below shows the increase in limits.

£'000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Authorised Limit	50,000	70,000	70,000	70,000
Operational Boundary	35,000	50,000	50,000	50,000
Capital Financing Requirement	35,321	50,500	49,277	47,827
External Debt	23,080	35,705	30,525	30,340



3.6 The strategy has been updated to allow the Council to lend to parish councils. Parish councils expenditure has grown in recent years and an increasing number make use of Money Market Funds for investing their surplus cash. So in the future there may be a need for them to borrow short term to meet their cash flow requirements. The strategy has set a £500,000 and six month limit, if the opportunity arose.

4 Interest Rate Forecast

4.1 The Council's treasury advisor, Capita Asset Services, as part of their service provide a view on the future forecast rates for Base Rate and PWLB:

	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
Base Rate	0.25%	0.25%	0.25%	0.25%	0.25%
PWLB - 5yr Rate	1.60%	1.60%	1.60%	1.60%	1.70%
PWLB - 10yr Rate	2.30%	2.30%	2.30%	2.30%	2.30%
PWLB - 25yr Rate	2.90%	2.90%	2.90%	3.00%	3.00%
PWLB – 50yr Rate	2.70%	2.70%	2.70%	2.80%	2.80%

4.2 The Monetary Policy Committee, (MPC), cut the Base Rate from 0.50% to 0.25% on the 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half on 2016. It also gave a strong steer that it was likely to cut the Base Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half of 2016 than that forecast, also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, the Base Rate was not cut again in December and, on current trends, it now appears unlikely that there will be another cut in the near future. It isn't until 2019 that rates are expected to move again.

4.3 Interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

4.4 The overall longer trend is for PWLB rates to rise, albeit gently. PWLB rates have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur in the foreseeable future.

5 MiFID 2

5.1 The EU is introducing legislation to regulate firms who provide services to clients linked to financial instruments and the way they are traded. The "Markets in Financial Instruments Directive" (MIFID 2) is set to commence on the 3rd January 2018.

5.2 Within the directive there is a key change that affects Local Authorities. Under the new regime, Local Authorities will be deemed "Retail" clients by default as opposed to "Professional" that they are now. By classifying Local Authorities as "Retail" reduces the ability to invest funds in certain products and so could reduce, further, interest achieved through investments.

5.3 There will be an option to opt-up to “Professional” but in order to do this there will be a number of qualitative and quantitative test criteria to satisfy. The opt-up process is not a one off exercise. It will need to be undertaken with every counter party / fund manager that the council deals with. One of the tests is that councils will need to have £15m or more in their investment portfolio, which currently Aylesbury Vale would meet.

5.4 Until it is clear what investment options are available under each status, it is too early to say which of the counter parties / fund managers would require the opt-up exercise to be undertaken. Although, the majority of local authorities’ investment is through bank and building society deposits and so falls outside the scope of the directive.

5.5 Our treasury advisors, Capita Assets, the Local Government Association (LGA) and other financial institutions are responding to the consultation from the Financial Conduct Authority (FCA), arguing that Local Authorities must be able to continue to invest as they do now and that the classification should not be applied.

5.6 The consultation process is still on going. If there are any significant changes these will be reported to members at the earliest opportunity.

6 Property Funds

Last year the use of Property Funds was included within the strategy as an alternative long term deposit to the use of Fund Managers. During the year there was no proposal to invest in a property fund, if there was a report would be brought to this committee for consideration.

7 Scrutiny

Finance and Services Scrutiny Committee now receive the Treasury Management Strategy prior to Council. However, as the next Finance and Services scrutiny committee is not until the 4th April and because of the requirement to agree this Strategy before the 1st April, they will receive the strategy for review at that meeting.

8 Reasons for Recommendation

Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual strategy statement prior to the 1st April on its Treasury Management function. This report represents the fulfilment of that requirement.

9 Resource implications

9.1 The authority operates an Interest Equalisation Reserve to smooth out fluctuations in interest rates.

9.2 As a result of the level of sums managed by the Council during 2016/17 and the continuing low interest rate, the interest generated, although low, was in line with the budget.

9.3 This means that at the end of 2016/17, the interest equalisation reserve is estimated to be £2.834 million.

9.4 The phased use of the balance on the Interest Equalisation Reserve forms part of the annual budget setting exercise. Following the last budget setting exercise, it was agreed that the current balance on the reserve was a prudent amount to hold in light of there being no expected change in interest rates in the short term.

9.5 The Medium Term Financial Plan also recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings. The plan is, therefore, gradually reducing the Council's reliance on interest earnings over time, so as to manage the remaining balance on the interest equalisation reserve.

Contact Officer	Tony Skeggs 585273
Background Documents	Treasury Management Action Plan 2016/17 Capita Services Treasury Management Update CIPFA Prudential Code Statutory Code of Practice for Treasury Management

Treasury Management Strategy Statement

Annual Investment Strategy, Performance Indicators and Minimum Revenue Provision.

Aylesbury Vale District Council
2017/18

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, or whether any policies require revision. In addition to this report, borrowing and deposit positions are reported in the Quarterly Financial Digest.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Services Scrutiny Committee.

The Director of Finance will report on Treasury Management activity / performance as follows:

Report to	Frequency
Council	
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)

Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually mid year (September/October)
Treasury Outturn Report	Annually after the year end and by the 30 September
Finance and Services Scrutiny	
Receives each of the above reports in advance of Council (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation of Treasury transactions have complied with the Strategy	Quarterly by way of the Financail Digest.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

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

1.4 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 TREASURY MANAGEMENT POLICY STATEMENT

This Council defines its treasury management activities as:

The management of the authoritiy's investments and cash flow, its banking, money market and capital market transactions; the effective control of the risks associated with those risks; and the pursuit of optimum performance consistent with those risks.

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and DCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The generation of investment income to support the provision of local authority services is important, but secondary, objective.

The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

3 TREASURY MANAGEMENT STRATEGY STATEMENT

3.1 Current Portfolio Position

The Council's treasury portfolio position as at 31 December 2016 comprise:

Borrowing

Fixed Rate Funding: £23.417m. Average Rate: 3.22%.

Investments

Fixed Rate and Notice Account Investments: £59.500m. Average Rate: 0.54%.

3.2 Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Quarter Dates	Bank Rate %	PWLB Borrowing Rates % (including certainty rate discount)		
		5 year	25 year	50 year
Mar 2017	0.25	1.60	2.90	2.70
Jun 2017	0.25	1.60	2.90	2.70
Sep 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
Mar 2018	0.25	1.70	3.00	2.80
Jun 2018	0.50	1.70	3.00	2.80

Sep 2018	0.50	1.70	3.10	2.90
Dec 2018	0.50	1.70	3.10	2.90

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- The Eurozone continues to cause concern, as Eurozone sovereign debt difficulties have not gone away. Greece, Spain and Italy still pose major concerns as a combination of further bail outs, unstable Governments and bank under capitalisation provide uncertainty added to this some German banks are under capitalised. EU rules state that national governments are forbidden to provide state aid to bail out vulnerable banks. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties will continue for the foreseeable future.
- Investment returns are likely to remain relatively low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid August, they fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling and an increase in inflation expectations. The ploicy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.
- There will remain a cost of carry to any new long-term borrowing which causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.4 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.5 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Council, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be:

- Achieving first of all security first (protecting the capital sum from loss)
- And then liquidity (keeping the money readily available for expenditure when needed)
- Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities..

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflect in the eyes of each agengy. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

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

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure 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 monitoring their security. This is set out in the specified and non-specified investment sections below; and

- 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.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

	Good Credit Quality with a minimum agency credit rating (where rated).	**Minimum Ratings**
BANKS		
1.1	Are UK banks	A
1.2	Are non-UK and domiciled on a country which has a minimum sovereign long term rating of	AAA
1.3	Short Term	F1+
1.4	Long Term	AA
2.1	Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalized or they meeting the ratings in Banks 1 above.	n/a
3.1	The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised (wherever possible) in both monetary size and time.	
BUILDING SOCITIES	The Council will use all societies within the top 20 that have assets over £½ billion. See time and amount restrictions below.	n/a
MMF	The Council will use Money Market Funds.	AAA
GOV'T		
1.1	The Council will use the UK Government (including gilts and the Debt Management Agency).	AAA
1.2	Local Authorities and Parish Councils	n/a
FOREIGN		
1.1	Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:	AA
1.2	no more than 25% will be placed with any non-UK country at any time	
1.3	limits in place above will apply to a group of companies	
1.4	sector limits will be monitored regularly for appropriateness	

Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money and / or % Limit	Time Limit
Banks 1 higher quality	AAA	£7.5m	1 year
Banks 1 medium quality	AA	£5m	1 year
Banks 1 lower quality	A	£3m	6 months
Banks 2 – part nationalised	N/A	£7.5m	1 year
Banks 3 – Council's Banker (not meeting Banks 1)	XXX	£2.5m	1 month
Building Societies < £1 billion	N/A	£1m	6 months
Building Societies > £1 billion	N/A	£3m	1 year
Money Market Funds	AAA	£7.5m	liquid
Debt Management Agency	AAA	unlimited	6 months
Local Authorities	N/A	£5m	1 year
Local Authorities Parishes	N/A	£500,000	6 months
Foreign	AA	£5m	1 year
Other institutions Limit	-	£2.5m	6 months

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The current list of appropriate countries is:

Australia
Canada
Denmark
Germany
Netherlands
Singapore
Sweden
Switzerland

4.4 Investment strategy

In-house funds.
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.
Bank Base Rate is forecast to remain unchanged at 0.25% for the next 24 months before starting to rise from quarter 2 of 2019. Bank Rate forecasts for financial year ends (March) are:

2016/17 - 0.25% 2017/18 - 0.25% 2018/19 - 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2016/17 - 0.55% 2017/18 - 0.45% 2018/19 - 0.45%

For its cash flow generated balances, the Council will seek to utilise its money market funds (overnight to 100 days) in order to benefit from the compounding of interest.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £'000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	32,120	21,120	18,500	18,500	18,500
Capital receipts	6,362	3,000	3,000	3,000	3,000
Provisions	1,931	1,931	1,931	1,931	1,931
Other	1,950	1,950	0	0	0
Total core funds	**42,363**	**30,849**	**23,431**	**23,431**	**23,431**
Working capital	-3,975	-3,500	-3,500	-3,500	-3,500
Under/ -over borrowing	12,635	18,570	17,164	15,628	14,092
Expected investments	**8,660**	**15,070**	**13,664**	**12,128**	**10,592**

4.5 Investment Liquidity

In consultation with the external treasury advisors, the Council will review its balance sheet position, level of resrves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External Fund Managers

The Council now has no funds externally managed.

4.8 Property Fund Managers

As an alternative to cash based investments, property offers a long term investment opportunity. Investment is made within a diversified property fund, which over the long term delivers a good return when compared to traditional cash based funds.

5 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

5.1 Indicators for Affordability

Ratio of financing costs to net revenue stream

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

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	-6.82%	-6.16%	-6.20%	-6.24%

The table above shows the impact of borrowing costs and reduced investment interest from 2016/17 onwards against the budget requirement. A negative figure means that there is a net investment position when compared to the budget requirement. This will become positive when borrowing costs exceed investment interest received.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. When the capital programme is reviewed, there will incremental impact on the Band D Council Tax of the capital investment decisions.

This indicator shows the increase to its Council tax as a direct result of its capital investment decisions. As the revenue impact is considered as part of the annual budget process any impact is considered alongside other pressures and savings.

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	£2.39	£7.20	£7.13	£7.13

5.2 Indicators for Prudence

The Council's Borrowing Need and Capital Financing Requirement

This prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

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

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	28,418	23,250	23,080	35,705	30,525
Expected change in Debt	-5,168	-170	12,625	-5,180	-185
Actual gross debt at 31 March	**23,250**	**23,080**	**35,705**	**30,525**	**30,340**
The Capital Financing Requirement	**35,883**	**35,321**	**50,499**	**49,277**	**47,827**
Under / (over) borrowing	**12,633**	**12,241**	**14,794**	**18,752**	**17,487**

5.3 Indicators for Capital Expenditure

Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The capital expenditure plans provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities.

Capital expenditure £'000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Leisure	2,412	150	390	140	140
Economic Development	6,071	5,000	9,400	0	0
Opportunity Purchase	0	300	0	0	0
Car Parking	0	0	600	200	0
Refuse Vehicles	0	285	3,600	0	0
Depot Replacement	12	0	9,200	0	0
Total General Fund	**8,495**	**5,735**	**23,190**	**340**	**140**
Disabled Facility Grants	637	306	100	100	100
Enabling Programme	385	1,069	1,500	1,500	1,500
TOTAL	**9,517**	**7,110**	**24,790**	**1,940**	**1,740**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £'000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	9,517	7,110	24,790	1,940	1,740
Financed by:					
Capital receipts	5,841	6,069	2,100	1,500	1,500
Capital grants	417	306	100	100	100
Capital reserves	3,039	735	740	340	140
Revenue	220	0	6,550	0	0
Net financing need for the year	**0**	**0**	**15,300**	**0**	**0**

5.4 Indicators for External Debt

Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt	35,000	50,000	50,000	50,000

Authorised Limit

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

Authorised limit £'000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	50,000	70,000	70,000	70,000

Upper and Lower Limits for Maturity Structure

It is recommended for any borrowing that the Authority takes that it sets an upper and lower limit for the maturity structure. The Authority is no longer debt free with loans ranging from 5 to 36 years taken to fund the capital programme. A current maturity limit of less than 1 year is the lower limit and the upper limit will be extended to no more than 40 years. The maturity structure within this range will vary according to the income streams generated by investment decisions but will be determined to maintain a positive cash flow.

Maturity Structure	Lower Limit	Upper Limit
	1 year	40 years

5.5 Indicators for Treasury Management

Adoption of CIPFA's Treasury Management in the Public Services: Code of Practice.

The aim is to ensure that treasury management is led by a clear and intergrated forward treasury management strategy, and a recognition of the pre-existing structure of the Council's borrowing and investment portfolios.

Upper Limit on Fixed Interest Rate Exposure

This indictor shows the Council's upper limit of the net exposure to fixed interest rates. Currently all borrowing is at a fixed rate if interest.

Indicator	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Upper limit on fixed interest rate exposure	100%	100%	100%	100%	100%

Upper Limit on Variable Interest Rate Exposure

This indictor shows the Council's upper limit of the net exposure to variable interest rates.

Indicator	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Upper limit on variable interest rate exposure	20%	20%	20%	20%	20%

Maturity Structure of Fixed Rate Borrowing

This shows the repayment profile of fixed rat borrowing. All loans are repayable on maturity.

Indicator	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Under 12 months	18%	0%	0%	0%	0%
12 months & within 24 months	0%	0%	0%	0%	0%
24 months & within 5 years	18%	21%	21%	0%	0%
5 years & within 10 years	0%	0%	0%	0%	27%
10 years & within 20 years	18%	21%	21%	27%	0%
20 years & within 30 years	0%	0%	0%	0%	0%
30 years & within 40 years	46%	58%	58%	73%	73%

Total Principal Sums Invested for Periods Longer than 364 Days

The purpose of this indicator is for the Council to contain its exposure to the possibilty of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested. The Council may seek to invest for periods longer than 364 days with other Local Authorities. This will be kept under review in light of economic conditions and advice from the treasury management advisors.

Indicator	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total principal sums invested for periods longer than 364 days (£'000)	0	0	5,000	5,000	5,000

Credit Risk

The duration of any investment with a counterparty will be restricted by an assessment based on credit ratings provided by the major agencies, as well as advice from our treasury management advisors.

6 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

Regulation 28 of the 2003 Regulations (as amended by regulation 4 of the 2008 Regulations) requires a local authority to calculate for the current financial year an amount of MRP, which it considers to be prudent. The Secretary of State recommends that, for purposes of regulation 4 the prudent amount of provision should be determined in accordance with one of four options, one of which was agreed by members in 2013/14 and is outlined below. Regulations have, also, been issued which require the full Council to approve an **MRP Statement** in advance of each year.

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).

Asset Life Method

Since 1 April 2014, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is expected to be £1,7m for 2017/18.

Where assets have been purchased utilising capital grants or revenue contributions no MRP calculation is required. Only assets purchased utilising borrowing require an MRP charge.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Director of Finance, with regard to the statutory guidance and advice from professional valuers.