APPENDIX 2

TREASURY STRATEGY AND PLAN 2015/16

1.0 Introduction

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) latest Code of Practice on Treasury Management and the Council's Treasury Management Policy Statement, a Treasury Strategy and Plan is prepared each year.

For the purpose of this strategy, treasury management includes the management of all capital market transactions in connection with the cash and funding resources of the Council. This covers all funds and reserves including the collection fund and includes the arrangement of leases.

The strategy includes broad principles, which provide the framework within which the Council's treasury management activities are conducted together with detailed plans for the management of the Council's loans and investment portfolios. The strategy includes those indicators required by the Prudential Code that relate to treasury management.

2.0 Treasury Management Objectives

The primary objective of treasury management operations will be to maximise the revenue resources available to the Council whilst ensuring the effective management of risks associated with treasury management activities in accordance with the following principles:

i) That the cost of borrowing is minimised commensurate with following a prudent funding policy.

ii) That the most advantageous rates of return on investments are secured commensurate with the primary principle of maintaining the capital value of funds.

iii) That the Council maintains flexibility in its borrowing and lending portfolios.

iv) That the Council manages its borrowings and investments as a combined portfolio in order to achieve the optimum net debt position.

The sections below provide a summary of the principal activities anticipated during the period covered.

3.0 Balanced Budget Requirement

It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, it requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level of increase in costs to revenue from:-

- Increases in interest charges caused by increased borrowing and,
- Any increase in running costs from new capital projects

to a level which is affordable within the projected income of the Council for the foreseeable future.

4.0 Current Treasury Position

The Council's detailed treasury position is highlighted in the following table.

		31st March 2014 Actual		Rate	31st March 2015 Estimate		Rate
		GF £ 000s	HRA £ 000s	%	GF £ 000s	HRA £ 000s	%
Fixed Rate Debt	PWLB	500		3.50	500		3.50
	PWLB	500		4.10	500		4.10
	PWLB	0	18,114	3.70	0	18,114	3.70
	Market	0	0		0	0	
Variable Rate Debt	PWLB	0	0		0	0	
	Market	0	0		0	0	
Total Debt		1,000	18,114		1,000	18,114	
Other Long-term Liabilities		0			0	0	
Total		**1,000**	**18,114**		**1,000**	**18,114**	
Fixed Investments		0			0	0	
Variable Investments		0			0	0	
Total Investments		**0**			**0**	**0**	
Net Borrowing		**1,000**	**18,114**		**1,000**	**18,114**	

5.0 Borrowing and Debt Strategy

5.1 Long Term

General Fund

At 31st March 2015 the Council's borrowing for General Fund purposes will total £1.0 million. This will be made up of two loans from the Public Works Loan Board (PWLB) as shown in the table at 4.0.

Despite the recent revisions to the "Right to Buy" scheme, the Council is still not in receipt of large sums of capital funds as a result of the sale of assets (Housing or General Fund). Because of this, it would generally be usual for debt to increase in line with the proposals within the capital programme. However, in the last few years, because the Council has had reasonable cash balances invested it has not been necessary to increase external borrowing. These balances relate to a number of different items such as grants and external contributions received in advance of expenditure, reserves and provisions and simple cash flow.

For 2015/16, because a large part of the capital programme relates to a £10m spend on new leisure facilities it will be necessary to increase borrowing by £5m to finance this project (the remainder will be funded by internal borrowing). It is intended that a new loan be sought from the PWLB to cover this. The majority of this loan will be coterminous with the life of the new leisure contract (40 years).

The above capital project apart, because the cost of long-term funding is above the rate of interest that can be earned by investing cash held and because it reduces the cash available for lending in a market where the number of high credit quality counterparties have decreased, it is proposed that additional borrowing to cover the General Fund Capital Financing Requirement (CFR) of £11.2 million be kept to a minimum. It is proposed that a further loan of £0.5 million be taken in 2016/17 followed by a further £0.5m in 2017/18. The £1 million increase in portfolio will partially cover the gap between gross debt and General Fund CFR up to 2017/18.This means, that in effect, the authority would be borrowing internally rather than externally to cover some capital expenditure for these financial years.

External debt figures relating to the General Fund for future financial years are expected to be:

2015/16	£6.0 million
2016/17	£6.5 million
2017/18	£7.0 million

Housing Revenue Account (HRA)

The self financing settlement involved the Council taking on £18.114 million of PWLB borrowing. The HRA business plan provides the repayment of HRA debt over its life. However, because resources are required in the early years of the plan to fund the demands of the asset management strategy, repayment cannot begin until 2020. The HRA debt is, therefore, structured to mature from 2020 onwards. Additional HRA borrowing of £0.5m is expected to be required in 2016/17, and another £0.5m in 2017/18 in order to fund capital works as per the HRA business plan.

5.2 Short Term

It is anticipated that some short term borrowing will be necessary during the period covered by the strategy. Should such borrowing be required to meet any short term deficits, the loans will be secured at the most favourable rates available.

6.0 Prudential Indicators and Limits on Activity

The purpose of these Prudential Indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

6.1 Authorised Limit for External Debt

This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
Borrowing	29,000	34,000	34,500	35,000
Other Long-term Liabilities	0	0	0	0
Total	29,000	34,000	34,500	35,000

The Chief Financial Officer (Section 151 Officer) reports that the authorised limits given above are consistent with the council's

current commitments, existing plans and the proposals in the capital programme report. The limits are also consistent with the Council's approved treasury management policy statement and practices. Risk analysis of the key elements of the council's cash flow forecasts has been undertaken to determine these limits.

6.2 Operational Boundary for External Debt

This indicator is based on the probable external debt during the course of the year (allowing for peaks and troughs in cash flow and the impact of treasury management decisions). It is not a maximum and actual borrowing could vary around the boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
Borrowing	27,000	32,000	32,500	33,000
Other Long-term Liabilities	0	0	0	0
Total	27,000	32,000	32,500	33,000

6.3 Limits in Interest Rate Exposure

Upper Limits on Variable Rate Exposure – This indicator identifies a maximum limit for variable interest rates based upon net interest payments.

Upper Limits on Fixed Rate Exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

	2014/15 Upper %	2015/16 Upper %	2016/17 Upper %
Limits on fixed interest rates	100	100	100
Limits on variable interest rates	25	25	25

6.4 Maturity Structure of Fixed Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

	2013/14	
	Lower %	Upper %
Under 12 months	0	25
12 months to 2 years	0	25
2 years to 5 years	0	50
5 years to 10 years	0	75
10 years and above	0	100

6.5 Total Principal Sums Invested

These limits are set to reduce the need for early sale of investment, and are based on the availability of investments after each year-end.

There are no proposals for the Council to invest sums for periods longer than 364 days.

7.0 Local Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the Prudential Indicators, which are predominantly forward looking. The Council also sets local performance indicators which are as follows.

Local Indicator	2014/15	2015/16	2016/17	2017/18
Average rate of interest on borrowing compared to the national average	Level	Level	Level	level
Average rate of interest on investments compared to the national average	Level	Level	Level	Level

The results of these indicators will be reported as part of the Treasury Management Annual Report before 30th September each year.

8.0 Minimum Revenue Provision

Local authorities are required each year to set aside some of their revenue budget as provision for debt repayment. This scheme of Minimum Revenue Provision (MRP) is set out in sections 27, 28 and 29 of the Capital Finance Regulations 2003.

Under the guidance a statement of policy on making MRP is required. Members are asked to approve the following statement:

General Fund

For the financial year 2015/16, it is proposed that in respect of debt that is supported by Revenue Support Grant (RSG), MRP is calculated using the Capital Financing Requirement (CFR) method. For new borrowing for which no Government support is being given and is therefore self- financed, it is proposed that the Asset Life method is used, with the exception of the borrowing related to the development of the leisure facilities, where the Annuity Asset Life method will be used.

The CFR method calculates MRP as 4% of the non-housing CFR at the end of the preceding financial year (4% of the capital expenditure funded by supported borrowing). This is consistent with the way in which supported borrowing costs are paid through Revenue Support Grant.

The Asset Life method requires MRP to be made in equal annual instalments over the estimated life of the asset for which the unsupported borrowing is undertaken.

The Annuity Asset Life method requires that the MRP for each year be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at a specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life of the asset. This results in an MRP charge that rises over time. This is deemed to be particularly appropriate for assets which generate increasing revenues over time.

HRA

There is no statutory requirement to make a MRP in the HRA. There is, therefore, no requirement to follow the DCLG Guidance when considering an appropriate provision for the HRA. Therefore, because

- ***There is no statutory requirement,***
- ***There is no repayment of debt due to begin until 2020 and***
- ***Resources are required in the early years of the HRA business plan to fund the demands of the asset management strategy***

it is proposed that a suitable level of voluntary set aside be determined for future years during 2015/16.