APPENDIX 2

TREASURY STRATEGY AND PLAN 2017/18

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 2016 Actual		Rate	31st March 2017 Actual		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	2.98	0	18,114	2.98
	PWLB	0		0.00	5,000		2.66
	Market	0	0		0	0	
Variable Rate Debt	PWLB	0	0		0	0	
	Market	0	0		0	0	
Total Debt		1,000	18,114		6,000	18,114	
Other Long-term Liabilities		0			0	0	
Total		**1,000**	**18,114**		**6,000**	**18,114**	
Fixed Investments		0			0	0	
Variable Investments		0			0	0	
Total Investments		**0**			**0**	**0**	
Net Borrowing		**1,000**	**18,114**		**6,000**	**18,114**	

(Continued overleaf)

5.0 Borrowing and Debt Strategy

5.1 Long Term

General Fund

At 31st March 2017 the Council's borrowing for General Fund purposes was total £6.0 million. This will be made up of three loans from the Public Works Loan Board (PWLB) as shown in the table at 4.0.

Up until the end of 2015/16 the Council was able to utilise cash balances which it had in the form of short-term investments, grants and capital reserves to help in the funding of its capital programme and as a result had not been forced to increase long term borrowing despite carrying out ambitious schemes both in the General Fund and Housing Revenue Account.

In 2016/17 the financing of the Council's new leisure development was finalised. The Council borrowed £5 million from the PWLB, taken over 39 years. The remaining £5 million of the £10 million project was funded by internal borrowing.

With internal balances and investments utilised, future capital programmes will need to be funded principally from borrowing. It is proposed to borrow a further £7.5million in 2016/17 to be used to fund the 2017/18 Capital Programme as well as make funds available for development work carried out by the Council's wholly owned housing company, Bushloe Developments.

Total external debt relating to the General Fund for future financial years are expected to be:

2017/18	£11.75 million
2018/19	£12.50 million
2019/20	£14.00 million
2020/21	£15.50 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. The initial borrowing was due to start repayment in 2020, however due to changes in government legislation which has impacted detrimentally on the financial position of the HRA, this debt repayment plan is now likely to need restructuring with a new plan being drawn up.

The HRA used borrowing to fund the capital programme in 2016/17. This initially was supported by internal balances but £1.75 million in new borrowing will be required in 2017/18.

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.

	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s	2018/19 Estimate £ 000s	2019/20 Estimate £ 000s
Borrowing	34,000	40,000	45,000	45,000
Other Long-term Liabilities	0	0	0	0
Total	34,000	40,000	45,000	45,000

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.

	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s	2018/19 Estimate £ 000s	2019/20 Estimate £ 000s
Borrowing	32,000	35,000	40,000	40,000
Other Long-term Liabilities	0	0	0	0
Total	32,000	35,000	40,000	40,000

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.

	2016/17 Upper %	2017/18 Upper %	2018/19 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.

	2017/18	
	Lower %	Upper %
Under 12 months	0	30
12 months to 2 years	0	35
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 2017/18, 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 before 31 March 2019 a full review of HRA debt is carried out to assess the practicalities of repayment/reduction of debt from 2020 onwards and consider the refinancing of this debt.