

Northampton Borough Council
Treasury Management Strategy
2015-16

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Note: The HRA draft budget figures were not finalised at the time of going to print and the HRA figures in the draft TMS are therefore provisional, based on information available as at 3 Dec 2014.

1 Introduction

CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

- 1.1 CIPFA has defined treasury management as “the management of the organisation’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 The Council has adopted CIPFA’s Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the Council’s Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

CIPFA Prudential Code for Capital Finance in Local Authorities

- 1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (the **Prudential Code**) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc and Accounts).
- 1.4 The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.
- 1.5 Councils are required to set and monitor a range of prudential indicators for capital finance, covering affordability, prudence, capital expenditure, external debt and treasury management, as well as a range of treasury indicators.

Treasury Management Policy Statement

- 1.6 The Council’s Treasury Management Policy Statement was approved by Council at their meeting of 25 February 2013. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

Treasury Management Practices

- 1.7 The Council’s Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities. The TMPs are split as follows:
- Main Principles
 - Schedules
- 1.8 The Council’s TMP Main Principles were approved by Council at their meeting of 25 February 2013. They follow the wording recommended by the latest edition of the CIPFA Treasury Code.

- 1.9 The Council's TMPs Schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities. They are reviewed annually and approved by the Council's Chief Finance Officer

The Treasury Management Strategy

- 1.10 It is a requirement under the Treasury Code to produce an annual strategy report on proposed treasury management activities for the year.
- 1.11 The Council's Treasury Management Strategy is drafted in the context of the key principles of the Treasury Code, as follows:
- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
 - Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
 - They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.
- 1.12 The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.
- 1.13 The Treasury Management Strategy incorporates:
- The Council's capital financing and borrowing strategy for the coming year
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit as required by the Local Government Act 2003.
 - The Annual Investment Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

- 1.14 The strategy takes into account the impact of the Council's Medium Term Financial Plan, its revenue budget and capital programme, the balance sheet position and the outlook for interest rates.
- 1.15 The Treasury Management Strategy for 2015-16 also includes the Council's:
- Policy on borrowing in advance of need
 - Counterparty creditworthiness policies
- 1.16 The main changes from the Treasury Management Strategy adopted in 2014-15 are
- Updates to Prudential and Treasury Indicators
 - Updates to interest rate forecasts
 - Updates to debt financing budget forecasts
 - Minor update to the MRP policy
 - Addition of overseas counterparties with a sovereign rating equal to that of the UK (AA+)
 - Extension of maximum period of investment from 2 to 3 years
 - Inclusion of additional types of non specified investments that may be used subject to the approval of the Chief Finance Officer

Scheme of Delegation

- 1.17 The Treasury Management Scheme of Delegation at Appendix 1 is taken from the Council's TMP Schedules. It sets out the delegated treasury management responsibilities of Council, Cabinet, Audit Committee and the Section 151 Officer. .

General Fund and HRA

- 1.18 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix 2

Equalities Statement

- 1.19 Equalities Impact Assessment (EIA) screening will be carried out on the Council's Treasury Strategy for 2015-16, and the associated Treasury Management Practices (Main Principles and Schedules).
- 1.20 In previous years the EIA screening has determined that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

2 Current Treasury Management position

- 2.1 The Council's projected treasury portfolio position at 31 March 2015, with forward estimates is summarised below. The table shows the external borrowing, against the Capital Financing Requirement (CFR), which is a measure of the need to borrow for capital expenditure purposes, highlighting any forecast over or under borrowing.

- 2.2 The figures exclude any borrowing undertaken or planned for third party loans so as to focus on the Council's own cash position.

£m	2014-15 Projected	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
External borrowing						
Borrowing at 1 April	216	207	214	219	233	236
Expected change in borrowing	-9	7	5	14	3	0
Borrowing at 31 March	207	214	219	233	236	236
CFR at 31 March	236	238	247	258	262	263
Under/(over) borrowing	29	24	28	25	26	27
Investments						
Investments at 1 April	71	29	27	23	26	25
Expected change in investments	-42	-1	-4	3	-1	-1
Investments at 31 March	29	27	23	26	25	24
Net borrowing	178	187	196	207	211	212

3 Prospects for interest rates

- 3.1 The Council has appointed Capita Asset Services (CAS) as its treasury advisors. Part of their service is to assist the Council to formulate a view on interest rates. The following table gives the CAS central view for the forecast bank rate, short term LIBID rates, and longer term PWLB rates.

Interest Rate Forecasts 2014-2018								
Date	Bank Rate %	LIBID Rates %			PWLB Borrowing Rates % (including certainty rate adjustment)			
		3 Month	6 Month	12 Month	5 year	10 year	25 year	50 year
Dec-14	0.50	0.50	0.70	0.90	2.50	3.20	3.90	3.90
Mar-15	0.50	0.60	0.80	1.00	2.70	3.40	4.00	4.00
Jun-15	0.75	0.80	1.00	1.20	2.70	3.50	4.10	4.10
Sep-15	0.75	0.90	1.10	1.30	2.80	3.60	4.30	4.30
Dec-15	1.00	1.10	1.20	1.40	2.90	3.70	4.40	4.40
Mar-16	1.00	1.30	1.40	1.70	3.00	3.80	4.50	4.50
Jun-16	1.25	1.40	1.50	1.80	3.10	3.90	4.60	4.60
Sep-16	1.25	1.60	1.80	2.10	3.20	4.00	4.70	4.70
Dec-16	1.50	1.90	2.00	2.20	3.30	4.10	4.70	4.70
Mar-17	1.50	2.10	2.20	2.30	3.40	4.10	4.80	4.80
Jun-17	1.75	2.10	2.30	2.40	3.50	4.20	4.80	4.80
Sep-17	2.00	2.30	2.50	2.60	3.50	4.20	4.90	4.90
Dec-17	2.25	2.40	2.70	2.80	3.50	4.30	4.90	4.90
Mar-18	2.50	2.60	2.80	3.00	3.50	4.30	5.00	5.00

- 3.2 Until 2013, the economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. However, growth rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market.
- 3.3 Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone. There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established.
- 3.4 As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008.
- 3.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Counterparty risks remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods when undertaking investments;
- Investment returns are likely to remain relatively low during 2015-16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates.
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4 Borrowing strategy

Capital Financing

- 4.1 The Council's capital programme is financed by borrowing and by other available sources such as capital receipts, grants, third party contributions and revenue contributions.
- 4.2 Where borrowing is used to finance the Council's capital expenditure this is done under the prudential borrowing regime, with the Council funding the full costs of borrowing from its own revenue resources. This method of funding, sometimes referred to as unsupported borrowing, is particularly suitable for 'spend to save' schemes, where the financing costs of borrowing can be funded from revenue savings. However lack of capital resources means that it may also be used for other essential capital schemes where no other resources can be identified. As the repayment of principal is spread over the life of the asset it is most suitable for financing capital assets with long useful economic lives.
- 4.3 The Council also makes use of operating and finance leases to fund some types of expenditure where these offer better value for money than straightforward purchase and capital financing. Examples of the types of assets that might be leased are IT equipment and office furniture.
- 4.4 The accounting treatment for operating and finance leases is very different. The annual costs of operating leases are treated as revenue expenditure in the accounts and are not included in the Council's capital programme. In contrast, finance leases have to be treated as capital expenditure items in the Council's accounts. Changes to accounting regulations mean that leases are increasingly being classified as finance leases.

Borrowing

- 4.5 The Council as a whole 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. Instead, cash

supporting the Council's reserves, balances and cash flow has been used to fund borrowing.

- 4.6 This strategy of internal borrowing, has served the Council well in the current economic climate, as investment returns are low and counterparty risk is relatively high. However, the decision to maintain internal borrowing to generate short term savings must be evaluated against the potential for incurring additional long term borrowing costs in futurer years, when long term interest rates are forecast to be significantly higher.
- 4.7 Against this background and the risks within the economic forecast, caution will be adopted with the 2015-16 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 4.8 The Council will continue to use a mix of its own cash balances and long term borrowing to finance capital expenditure and to repay maturing loans, in order to maximise short term savings and manage interest rate risk.
- 4.9 The Council has access to Public Works Loan Board (PWLB) loans for its long term external borrowing needs at the 'certainty rate', which is 20 basis points below the standard PWLB rate.
- 4.10 Loans are also available from major banks via the money market, depending on market conditions, and these may be considered when they offer better value for money than PWLB loans. The Council will in particular consider forward funding deals to mitigate the interest rate risks associated with internal borrowing.
- 4.11 Other forms of borrowing such as bonds or private placements, either acting alone or through a collective agency such as the newly formed Municipal Bonds Agency, may be considered if available and appropriate.
- 4.12 Decisions on the timing and type of borrowing are taken in consultation with the Council's external treasury management advisors. All long-term external borrowing requires the express approval of the Chief Finance Officer, who has the delegated authority to take the most appropriate form of borrowing from approved sources.

Loans to Third Parties

- 4.13 The Council may make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local economic development, and may be funded by external borrowing.
- 4.14 New borrowing is anticipated in 2015-16 to finance two loans to third parties:
- Northampton Town Football Club – Cabinet approved in principle the granting of loan finance of up to £12m to support stadia expansion and associated development. The final tranches of the loan (£1.5m) will be drawn down in 2015-16.

- University of Northampton –The Council has worked with the South East Midlands Local Enterprise Partnership (SEMLEP) to secure the LEP project rate from PWLB for a loan facility of £46 million to support the creation of a waterside campus. The loan is expected to be drawn down during the last quarter of 2015-16. Alongside this Northamptonshire Enterprise Partnership (NEP) has worked with Northamptonshire County Council to secure a further £14m at the LEP project rate from PWLB for the same project.

4.15 The University of Northampton loan has not yet been included in the Council's own capital programme, but the Council's Treasury Strategy incorporates the limits and permissions required to allow the borrowing to go ahead.

Prudential & Treasury Indicators

4.16 The Council's prudential and treasury indicators for 2015-16 to 2019-20 are set out at Appendix 3.

Policy on borrowing in advance of need

4.17 Under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years. The Council's policy on borrowing in advance of need is that this will not be undertaken purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

4.18 The Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Debt rescheduling

4.19 The debt portfolio will be kept under review, with debt rescheduling opportunities being investigated for potential cash savings and / or discounted cash flow savings or to enhance the balance of the portfolio.

4.20 As short term borrowing rates tend to 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). Furthermore, changes to accounting regulations and to the structure of PWLB rates in recent years mean that rescheduling opportunities for the Council's PWLB loans are very much more limited than in the past. Decisions will be based on appropriate advice from the Council's external treasury management advisers.

4.21 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.
- Enhancing the balance of the portfolio (by amending the maturity profile and/or the balance of volatility).

4.22 Any debt rescheduling undertaken will subsequently be reported to Cabinet in the next treasury report following the decision.

Affordable Borrowing Limit

4.23 The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the "Affordable Borrowing Limit". This is equivalent to the treasury indicator for the authorised limit.

4.24 The Council's affordable borrowing limit for 2015-16 is set at £320m. The table below shows the limits for next year and the following four years, broken down between the limit required for the Council's own capital expenditure purposes and that required for the provision of loans to third parties.

Affordable Borrowing Limit					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
NBC CFR plus headroom	255	266	276	281	281
To support loans to third parties	65	64	64	59	54
Affordable Borrowing Limit	320	330	340	340	335

Temporary Borrowing

4.25 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position. The maximum amount of temporary borrowing that the Council will borrow from any one counterparty will be £5m.

4.26 In addition, under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements were set up with these

organisations in April 2009. These contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%
- Quarterly review of interest rates
- Withdrawal notice periods of 7 days
- Termination notice of 7 days

4.27 The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

Overdraft Facilities

4.28 The Council has a £200k overdraft facility with its bankers, HSBC Bank, for which an annual fee of £2k applies. The overdraft rate applicable to use of the agreed facility is 2.5% above the prevailing Bank of England base rate.

4.29 The overdraft facility is only used to cover unforeseen events; usage is kept to an absolute minimum and generally occurs only as a result of events outside of the Council's control; for example, failure by third parties to make agreed payments. The use of the overdraft facility is monitored against a performance target.

5 Minimum Revenue Provision

5.1 The Council is required to repay an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP). The Housing Revenue Account is not subject to a mandatory MRP charge.

5.2 CLG Regulations have been issued which require full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

5.3 The Council's policy statement on MRP for 2015-16 is set out at Appendix 4. . The policy is considered by the Section 151 Officer to provide for the prudent repayment of debt.

6 Investment strategy

6.1 Government Guidance on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

6.2 The Council's general policy objective is to invest its surplus funds prudently. Due to the ongoing uncertainty in the banking sector which has seen institutions fold, it is now felt more appropriate to focus on the safe return of the sum invested. As such the Council's investment priorities in priority order are

- the security of the invested capital
- the liquidity of the invested capital
- the yield received from the investment

6.3 The Council's Annual Investment Strategy for 2015-16 is set out at Appendix 5.

7 Sensitivity of the forecast and risk analysis

Risk Management

7.1 The 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. Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the treasury activities are:

- Credit and counterparty risk (security of investments)
- Liquidity risk (adequacy of cash resources)
- Interest rate risk (fluctuations in interest rate levels)
- Exchange rate risk (fluctuations in exchange rates)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory risk (non-compliance with statutory and regulatory requirements)
- Fraud, error and corruption, and contingency management (in normal and business continuity situations)
- Market risk (fluctuations in the value of principal sums)

7.2 The TMP Schedules set out the ways in which the Council seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk). Council officers, in conjunction with the treasury advisers, will monitor these risks closely.

Sensitivity of the Forecast

7.3 The sensitivity of the forecast is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the Council has no control. In terms of interest rates, with the forecast investment portfolio of £28m for 2015-16, each 0.1% increase or decrease in investment rates equates to £28k, the revenue impact of which is shared between the HRA and the General Fund.

7.4 Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the Council's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP Schedules and the treasury strategy, and in line with the Council's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported to Cabinet as part of the Council's regular budget monitoring arrangements.

8 Reporting arrangements

8.1 In line with best practice full Council is required to receive and approve, as a minimum, three main treasury management reports each year, as follows.

- Annual Treasury Management Strategy
- Treasury Management Mid Year Report
- Treasury Management Outturn Report

8.2 The reports include the Council's treasury and prudential indicators.

8.3 Full details of the Council's treasury management reporting arrangements are contained in the Council's Schedules to the Treasury Management Practices (TMP 6 – Reporting Requirements and Management Information Arrangements)

9 Debt financing budget

9.1 The following table sets out the Council's debt financing budget for 2015-16 to 2019-20. Interest payable and reimbursements in respect of loans to third parties are included, but have a zero bottom line impact.

9.2

Debt Financing Budget – NBC					
	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Interest payable	1,236	1,251	1,377	1,267	1,080
Interest Receivable	(681)	(806)	(911)	(881)	(680)
MRP	1,229	1,229	1,324	1,422	1,520
Recharges from/(to) the HRA	102	107	95	129	150
Total	1,886	1,781	1,885	1,937	2,070

9.3 The following table sets out estimates of the expenditure and income impacts of loans to third parties included above; there will be an overall net nil impact to the Council.

Debt Financing Budget – Loans to Third Parties					
	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Interest payable	483	473	463	417	233
Interest receivable	(483)	(473)	(463)	(417)	(233)
Total	0	0	0	0	0

9.4 The interest rate assumptions behind the budgeted figures are as follows:

Interest Rate Assumptions					
	2015-16 %	2016-17 %	2017-18 %	2018-19 %	2019-20 %
Investments	0.7	1.3	1.8	2.3	2.8
GF new and replacement borrowing	4.25	4.25	4.25	4.25	4.25

Assumptions on HRA interest on borrowing may differ slightly as they have aligned to the HRA Business Plan assumptions.

9.5 MRP charges are in line with the Council's MRP policy at Appendix 4.

10 Policy on the use of external service providers

10.1 Treasury management consultants are used to support the Council's treasury management activities by providing expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, creditworthiness of counterparties etc

10.2 The current supplier of service is Capital Asset Services, under a framework contract with LGSS. The costs of the service are met by LGSS.. The contract expires at Oct 2015, and it is anticipated that this will be extended to October 2016.

- 10.3 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 the external service providers. However 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.

11 Current and future developments

- 11.1 Local Authorities have to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils' treasury management activities. The Government is introducing new statutory powers and policy change which will have an impact on treasury management approaches in the future. Examples of such changes are:

Localism Act 2011

- 11.2 A key element of the Act is the "General Power of Competence": "A local authority has power to do anything that individuals generally may do." The Act opens up the possibility that a local authority may be able to use derivatives as part of their treasury management operations. However the legality of this has not yet been tested in the courts. The Council has no plans to use financial derivatives under the powers contained in this Act.

Enterprise Zone

- 11.3 The Council is taking forward infrastructure improvements to enable development and to attract investment into the Enterprise Zone, supporting employment growth. Loans have been granted from the Government's Growing Places Fund (GPF) and Local Infrastructure Fund (LIF). The repayment of funding (principal and interest) will be met from business rates uplift in line with the Enterprise Zone financial model.

Tax Incremental Financing

- 11.4 The Government has outlined its plans to give local authorities the tools to promote growth, including giving more freedom for local authorities to make use of additional revenues to drive forward economic growth in their areas. infrastructure projects
- 11.5 To this aim they are looking to introduce new borrowing powers to enable authorities to carry out Tax Incremental Financing (TIF) for infrastructure projects. This will require new legislation and will be closely linked to another Government initiative concerning the localisation of business rates i.e. local retention of business rate income.
- 11.6 In determining the affordability of borrowing for capital purposes, local authorities take account of their current income streams and forecast future income. Currently this does not factor in the full benefit of growth in local

business rate income. TIF will enable local authorities to borrow against a future additional uplift to their business rates base. It will be important to manage the costs and risks of this borrowing alongside wider borrowing under the Prudential Code.

- 11.7 The Council will explore these new opportunities and assess their impact on the Treasury Management Strategy, particularly in terms of risk to the sustainability, prudence and affordability to the Council's finances.

Local Impact Funding

- 11.8 The Council is working with other agencies to put together an application for Northamptonshire to become one of the pilot areas for a Local Impact Fund (LIF). The LIFs will be led by local public sector bodies to bring together local and national partners and investors to provide tailored investment support for charities and social enterprises. The LIF model exploits the economic and employment benefits of supporting the local sector, in addition to the social impact benefits. It works on the basis that locally led solutions to social investment will target resources where they are needed most. Investments can be matched against EU funding and could give Northamptonshire the opportunity of transforming significant areas of service delivery.
- 11.9 As an investor the Council will receive a rate of interest on its investment into the LIF. The details of the LIF investment arrangements will be examined by officers to understand their treasury management implications. This will include an assessment of any treasury management risks. However as the investment is an integral part of the LIF policy initiative, driven by service considerations, it will fall outside of the Council's stated investment strategy and counterparty criteria.

12 Training

- 12.1 A key outcome of investigations into local authority investments following the credit crisis has been an emphasis on the need to ensure appropriate training and knowledge in relation to treasury management activities, for officers employed by the Council, in particular treasury management staff, and for members charged with governance of the treasury management function
- 12.2 Policies for reviewing and addressing treasury management training needs are out in the TMP Schedules (TMP10 – Training and Qualifications)

13 List of appendices

- Appendix 1: Treasury Management Scheme of Delegation and Role of Section 151 Officer
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Treasury Management Scheme of Delegation and role of the Section 151 Officer

Treasury Management Scheme of Delegation

Council

The Council is responsible for:

- Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services
- Approval of the Treasury Management Policy Statement
- Approval of the annual Treasury Management Strategy and annual Investment Strategy
- Setting and monitoring of the Council's prudential and treasury indicators.
- Approval of the treasury management mid-year and outturn reports
- Approval of the debt financing revenue budget as part of the annual budget setting process

Cabinet

The Cabinet is responsible for:

- Consideration of the all of the above and recommendation to Council
- Receiving monitoring information on the debt financing budget as part of the revenue budget monitoring process.
- Approving the selection of external service providers and agreeing terms of appointment in accordance with the Council's procurement regulations

Audit Committee

Audit Committee is the body responsible for scrutiny and will have responsibility for the review of treasury management policy and procedures, the scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Cabinet and Council

Treasury management role of the Section 151 Officer

The Council's Chief Finance Officer is the officer designated for the purposes of section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the Council.

The Council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Responsible Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

The Responsible Officer may delegate his power to borrow and invest to members of his staff.

The Responsible Officer is responsible for:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and monitoring compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes.
- Submitting regular treasury management reports to Cabinet and Council.
- Submitting debt financing revenue budgets and budget variations in line with the Council's budgetary policies.
- Receiving and reviewing treasury management information reports
- Reviewing the performance of the treasury management function and promoting value for money
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules.
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.

Policy for attributing income and expenditure and risks between the General Fund and the HRA

- 1.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix 5.
- 1.2 The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.
- 1.3 The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount	Interest Rate
HRA Credit Arrangements CFR: concession agreements and finance leases	Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)	Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under funded CFR)	Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over funded CFR)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)	Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

- 1.4 For the purpose of calculating interest rates:
- HRA cash balances are based on the average of opening and closing HRA cash balances.
 - HRA CFR external debt is based on actual external debt
 - Other HRA CFR balances is based on the mid year position
- 1.5 Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

- 1.6 Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with LOBOs.
- 1.7 Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment, in the event of the failure of a counterparty.
- 1.8 Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two, using relevant available data. For example, in the event of impairment of an investment counterparty, the loss will be apportioned between the two funds based on an estimated proportion of cash balances held.

Appendix 3

Prudential and Treasury Indicators

The prudential indicators for 2015-16 to 2019-20 are set out below, each one with a commentary and risk analysis.

Affordability

a) Estimate of the ratio of financing costs to net revenue stream

Commentary

The indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. The objective is to enable trends to be identified.

The rising trend for the General Fund shown below reflects the cumulative impact of borrowing costs, including MRP, for capital programme schemes agreed each year, set against forecasts of a reducing net revenue stream, which is made up primarily of formula funding and council tax.

The relatively high ratio for the HRA across all years compared to General Fund arises from the servicing of the the HRA debt taken 2011-12 under the government's HRA self-financing agenda, and from the requirement to include depreciation in the financing costs, as represented by the value of the Major Repairs Allowance (MRA), which is not required in the General Fund figures.

Estimate of the ratio of financing costs to net revenue stream					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
General Fund	7.25%	7.21%	7.95%	8.46%	9.41%
HRA	35.94%	36.60%	36.92%	37.84%	36.93%

Risk Analysis

Debt financing costs relating to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will be dependent on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Carry forwards in the capital programme, whether planned or unplanned, will delay the impacts of debt financing costs to future years

b) Estimate of the incremental impact of capital investment decisions on the council tax

Commentary

This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on the Council Tax of approving additional capital expenditure.

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Interest on use of external borrowing
- Revenue running costs or savings

The figure represents the incremental impact on Council Tax from agreed capital expenditure schemes continuing from 2014-15 and prior years, starting in 2015-16 and planned for 2016-17 to 2019-20.

Estimates of incremental impact of new capital investment decisions on the Council Tax					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
General Fund	0.58	5.46	6.41	5.80	7.45

Risk Analysis

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and risks of the project, and these should include any additional revenue costs associated with a scheme.

These procedures are designed to ensure that capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

c) Estimate of the incremental impact of capital investment decisions on the housing rents

Commentary

This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Lost interest on use of Major Repairs Allowance (MRA)
- Interest on use of external borrowing
- Revenue running costs or savings

The figures represent the incremental impact on weekly housing rents from agreed capital expenditure schemes continuing from 2014-15 and prior years, starting in 2015-16 and planned for 2016-17 to 2019-20.

The availability of additional revenue funds to support capital expenditure is linked to the HRA self financing reforms; the abolition of subsidy payments to government (replaced by debt financing costs) has supported capital investment, initially to meet decent homes standards, and subsequently to maintain those standards and to invest in estate regeneration and/or new homes build. Actual rent rises will remain in line with the government rent restructuring policy.

Estimates of incremental impact of new capital investment decisions on Housing Rents					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
HRA	21.92	9.63	6.30	8.01	12.36

Risk Analysis

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the HRA revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the HRA Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and risks of the project, and these should include any additional revenue costs associated with a scheme.

These procedures are designed to ensure that HRA capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

Prudence

d) Gross debt and the capital financing requirement (CFR)

Commentary

This is a key indicator of prudence. It is intended to show that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and new two financial years. This demonstrates that the Council's borrowing has only been undertaken for a capital purpose.

Gross debt and the capital financing requirement		
	2015-16 £000 Excluding Third Party Loans	2015-16 £000 Including Third Party Loans*
Gross external debt	206,850	222,396
2014-15 Closing CFR (forecast)	236,131	253,396
Increases to CFR**:		
2015-16	1,533	2,782
2016-17	9,012	8,759
2017-18	11,205	10,951
2018-19	4,034	-
2019-20	822	-
Adjusted CFR	262,737	275,888
Gross external debt less than adjusted CFR	Yes	Yes

*Only third party loans included in the Council's capital programme are included.

** Where the change to the CFR is negative the adjustment is treated as zero.

Risk Analysis

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual strategy.

Capital Expenditure

e) Estimates of capital expenditure

Commentary

This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The draft capital programme for 2015-16 to 2019-20 is included elsewhere on this agenda and the prudential indicator figures are based on that report.

Estimates include continuation schemes from previous years, new bids for the coming year, and block programmes for the coming and future years. The programme is agreed annually and will be adjusted in the context of future bids submitted and available resources when the annual programmes for the future years are agreed. Variations to the existing programme may also be agreed during the year.

Capital Expenditure					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
General Fund	12,705	3,587	2,992	2,925	2,925
HRA	28,911	28,677	28,883	22,745	22,311
Total	41,616	32,264	31,875	25,670	25,236
Loans to third parties	1,500	0	0	0	0
Total	43,116	32,264	31,875	25,670	25,236

Risk Analysis

There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over or under budget, changes to specifications, and slowdown or acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. The risks are managed by officers on an ongoing basis, by means of active financial and project monitoring. Any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This can be particularly true of capital receipts, where market conditions are a key driver to the flow of funds, causing particular problems in a depressed or fluctuating economic environment. The financing position of the capital programme is closely monitored by officers on an ongoing basis and any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

f) Estimates of capital financing requirement (CFR)

Commentary

External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions.

The Council is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and the following two years thereafter. A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Council's previous, current and future capital programmes.

The table below splits out the impacts of loans to third party organisations funded by borrowing, where these are included in the Council's capital programme.

The forecast trend for the General Fund CFR (excluding third party loans) is shows a gradual increase over the forthcoming five-year period. The impact of proposed new capital expenditure funded by borrowing is partially offset by annual repayments of principal (Minimum Revenue Provision).

The HRA CFR shows a significant increase of £22m over the five year period as additional borrowing is planned to support the HRA capital programme. The HRA does not make an annual revenue provision towards debt repayment.

The changes to CFR for future years (2016-17 to 2019-20) are subject to future Council decisions in respect of the capital programme for those years

Capital Financing Requirement (Closing CFR)					
	2015-16	2016-17	2017-18	2018-19	2019-20
	31 March 2016 Estimate £000	31 March 2017 Estimate £000	31 March 2018 Estimate £000	31 March 2019 Estimate £000	31 March 2020 Estimate £000
General Fund	50,861	51,771	52,623	53,514	54,335
HRA	186,803	194,905	205,258	208,401	208,401
Total	237,664	246,676	257,881	261,915	262,736
Loans to third parties (GF)	18,514	18,261	18,008	13,253	8,496
Total	256,178	264,937	275,889	275,168	271,232

Risk Analysis

The capital financing requirement will vary from the estimates if there are changes to capital programme plans that result in reduced or increased borrowing to support expenditure. This will include adjustments between years as a result of carry forwards in the capital programme, which can impact on the profile of capital expenditure and the profile of the minimum revenue provision.

All borrowing plans must be affordable in revenue terms and to this end additional borrowing to fund capital expenditure will only be approved through the normal capital project approval process and where it has been demonstrated to be prudent affordable and sustainable.

External Debt

g) Authorised limit for external debt

Commentary

For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

This requires the setting for the forthcoming financial year and the following four financial years of an authorised limit for total external debt (including temporary borrowing for cash flow purposes), gross of investments, separately identifying borrowing from other long term liabilities.

The authorised limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is

“prudent” and be consistent with plans for capital expenditure and financing. It contains a provision for forward funding of future years capital programmes, which may be utilised if current interest rates reduce significantly but are predicted to rise in the following year.

This limit is based on the estimate of the most likely but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. It includes headroom for any planned loans to third party organisations.

The authorised limit is set at an amount that allows a contingency for any additional unanticipated or short-term borrowing requirements over and above the operational boundary during the period (see (h) below).

Other long-term liabilities relate to finance leases and credit arrangements.

The Council’s S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

Authorised limit for external debt					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	315	325	335	335	330
Other long-term liabilities	5	5	5	5	5
Total	320	330	340	340	335

Risk Analysis

Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council’s cash flow requirements.

h) Operational boundary for external debt

Commentary

The proposed operational boundary is based on the same estimates as the authorised limit. However it excludes the additional headroom included within the authorised limit to allow for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the S.151 Officer.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The borrowing element of the operational boundary has been set with reference to the maximum Capital Financing Requirement (CFR) over the coming three years. It includes headroom for any planned loans to third party organisations.

Other long-term liabilities relate to finance leases and credit arrangements.

The Council's S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

Operational boundary for external debt					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	305	315	325	325	320
Other long-term liabilities	5	5	5	5	5
Total	310	320	330	330	325

Risk Analysis

Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council's cash flow requirements.

i) HRA Limit on Indebtedness

Commentary

The local authority is required to report the level of the limit imposed (or subsequently amended) at the time of implementation of self-financing by the Department for Communities and local Government. It is the HRA capital financing requirement that will be compared to this limit.

Indicator

The HRA limit on indebtedness is **£217.001m**. This is the HRA debt cap imposed by the Department for Communities and local Government. The original debt cap of £208.401m has been increased by DCLG from 2015-16 onwards to allow for additional borrowing to fund new council house building at Dallington Beck.

Risk Analysis

The HRA business plan has been modelled with full regard to the CLG debt cap requirements. The risk assessment of the business plan does not identify the breach of the debt cap as a risk. However there is an identified risk that inflation levels may change more than expected, resulting in the financial assumptions in the business plan proving to be inaccurate, leading to reduced headroom for borrowing. In this instance borrowing may reach (but not breach) the debt cap.

Treasury Management

j) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

Commentary

The Prudential Code requires that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward looking treasury management strategy, and recognition of the pre-existing structure of the authority's borrowing and investment portfolios.

Indicator

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The adoption is included in the Council's Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

Risk Analysis

Effective risk management is a fundamental requirement for the treasury management function, and this theme runs explicitly through the Treasury

Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

The prime policy objectives of the Council's investment activities are the security and liquidity of funds, and return on investments will be considered only once these two primary objectives have been met. The Council will thereby avoid exposing public funds to unnecessary or unquantified risk.

The Council's Treasury Management Strategy Report for 2015-16 to 2019-20 discusses the ways in which treasury management risk will be determined, managed and controlled.

Treasury Indicators

k) Maturity structure of borrowing

This indicator sets both upper and lower limits with respect to the maturity structure of the Council's borrowing.

The indicator represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months;
- 12 months and within 24 months;
- 24 months and within 5 years;
- 5 years and within 10 years;
- 10 years and within 20 years;
- 20 years and within 30 years;
- 30 years and within 40 years;
- 40 years and above.

The Treasury Management Code of Practice Guidance Notes requires that the maturity is determined by the earliest date on which the lender can require payment, which in the case of LOBO loans is the next break period. However in the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.

The proposed limits for the forthcoming year are:

Maturity Structure of Borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	20%
Between 1 and 2 years	0%	20%
Between 2 and 5 years	0%	20%
Between 5 and 10 years	0%	20%
Between 10 and 20 years	0%	40%
Between 20 and 30 years	0%	60%
Between 30 and 40 years	0%	80%
Over 40 years	0%	100%

Risk – The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

I) Upper limits on interest rate exposures

The Council must set for the forthcoming financial year and the following two financial years, upper limits to its exposure to the effect of changes in interest rates. These limits relate to both fixed interest rates and variable interest rates, and are referred to as the upper limits on fixed interest rate and variable interest rate exposures.

The purpose of the indicator is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates, as in the case of LOBOs.

These limits can be expressed either as absolute amounts or as a percentage. They may be related either to the authority's net principal sum outstanding on its borrowing/investments or to the net interest on these.

As a result of advice from the Council's treasury advisors, these indicators have been set as percentages rather than absolute values. Separate indicators are set and monitored for debt and investments, as well as for the net borrowing position.

It is proposed to maintain the upper limits on interest rate exposures for borrowing at 100% for both fixed and variable rate debt. This will allow officers to make judgements on the most appropriate form of borrowing dependant on the market conditions and rates on offer, rather than being artificially constrained by the

indicator. In practice there is likely to be a mix of fixed and variable rate borrowing in the Council's debt portfolio.

Upper limits on interest rate exposures - borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	100%	100%
2016-17	100%	100%
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%

Upper limits on interest rate exposures - investments		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	100%	100%
2016-17	100%	100%
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%

The interest rate exposures for net borrowing are distorted when debt and investment are combined. However, this combined indicator is included here for completeness, and as required by the Treasury Management Code of Practice. The percentages in the table below allow for both borrowing and investments to independently reach limits of 100% for both fixed and variable rates. Actual percentages on net borrowing may sometimes be in excess of 100% or below zero (ie negative percentages).

Upper limits on interest rate exposures – net borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	150%	150%
2016-17	150%	150%
2017-18	150%	150%
2018-19	150%	150%
2019-20	150%	150%

m) Total principal sums invested for periods longer than 364 days

Under the Local Government Act 2003 and the CLG Guidance on Local Authority Investments 2004 (revised 2010), all Councils are permitted to invest for periods exceeding 1 year (or 364 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent method and the more straightforward to monitor.

The limit has been set at a level that would allow for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable.

The proposed limits for the forthcoming, and following four financial years are as follows.

Upper limit on investments for periods longer than 364 days					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m
Investments < 364 days	5	5	4	5	4

This upper limit has been calculated at a prudent level with regard to cashflow liquidity, based on a maximum of 20% of forecast average general (HRA & GF) cash balances in year.

Minimum Revenue Provision Policy Statement

- 1.1 The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, require local authorities to make 'prudent provision' for the repayment of its General Fund debt. This debt repayment is known as the Minimum Revenue Provision (MRP).
- 1.2 A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets for which the borrowing has been carried out.
- 1.3 Since 2007-08 the Council has used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.
- 1.4 The authority is required, under the 2008 regulations, to prepare an annual statement of their policy on making MRP for submission to Council.
- 1.5 The Council's policy statement on MRP for 2015-16 is set out below. The policy is considered by the Section 151 Officer to provide for the prudent repayment of debt.
 - 1.5.1 The Council has implemented the 2008 CLG Minimum Revenue Provision (MRP) guidance from 2008-09 onwards, and assessed their MRP from 2008-09 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
 - 1.5.2 MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the "regulatory method".
 - 1.5.3 The debt liability relating to capital expenditure incurred from 2008-09 onwards will be subject to MRP under option 3, the "asset life method", and will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
 - 1.5.4 Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
 - 1.5.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be

assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner that reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

- 1.5.6 The Council will seek to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts will be used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt will be based on the lives of the remaining asset for which borrowing was undertaken.
- 1.5.7 MRP will be charged from the financial year after the asset comes into use.
- 1.5.8 In cases where the Council has approved the use of capital receipts to fund the asset, this funding will be assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge will be made.
- 1.5.9 No MRP will be charged in respect of capital expenditure funded by borrowing where the expectation is that a future capital receipt will be applied to the CFR as a voluntary debt repayment for the borrowing. Examples are:
- Capital expenditure on preparing assets for sale.
 - Loans advanced to housebuyers under the Local Authority Mortgage Scheme (LAMS), should the scheme re-open and the Council decide to participate.
- 1.5.10 Where finance leases are held on the balance sheet, the MRP will be set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.
- 1.5.11 The Council will take advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.
- 1.5.12 In respect of loans to third parties supported by borrowing, where these are treated as capital expenditure, and contractual terms are in place to secure repayment over a period not exceeding the life of the asset, the Council will not charge MRP on the related expenditure.
- 1.5.13 In respect of infrastructure improvements and other capital schemes where repayment of the funding (principal and interest) will be met from business rates uplift in line with the Enterprise Zone financial model, and the repayment does not exceed the life of the asset, the Council will not charge MRP on the related expenditure.

Appendix 5

Annual Investment Strategy

1 Investment policy

- 1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 1.2 The Council's appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

2 Creditworthiness policy

- 2.1 The Council's counterparty and credit risk management policies and its approved instruments for investments are set out in the TMP Schedules (TMP 1 Risk Management: Credit and counterparty risk management and TMP 4 Approved Instruments, Methods and Techniques). These, taken together, form the fundamental parameters of the Council's Investment Strategy
- 2.2 The Council defines high credit quality in terms of investment counterparties as those organisations that:
 - Meet the requirements of the creditworthiness service provided by the Council's external treasury advisers (ie have a colour rating) and,
 - Have sovereign ratings of AAA, or are
 - UK banking or other financial institutions or are
 - UK national or local government bodies or are
 - Triple A rated Money Market funds

3 Sovereign limits

- 3.1 Expectation of implicit sovereign support for banks and financial institutions in extraordinary situations has lessened considerably in the last couple of years, and alongside that, changes to banking regulations have focussed on improving the banking sectors resilience to financial and economic stress. The Council has therefore reviewed its previous policy of restricting overseas investments to counterparties in countries with a sovereign rating of AAA.
- 3.2 The Council has determined that for 2015-16 it will only use approved counterparties from countries with a sovereign credit rating from the three main ratings agencies that is equal to or above to that of the UK, currently AA+.
- 3.3 The list of countries that qualify using these credit criteria as at the date of this report are shown below. This list will be amended by officers should ratings change in accordance with this policy.

AAA	AA+
Australia	Finland
Canada	Hong Kong
Denmark	Netherlands
Germany	UK
Luxembourg	USA
Norway	
Singapore	
Sweden	
Switzerland	

4 Investment position and use of Council's resources

- 4.1 The application of resources, such as capital receipts, reserves etc., to either finance capital expenditure or for other budget decisions to support the revenue budget will have an ongoing impact on investments balances and returns unless resources are supplemented each year from new sources such as asset sales. Detailed below are estimates of the Council's year end balances available for investment

Year End Resources £m	2014-15 Projected	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Core funds	53	47	47	47	47	47
Working capital surplus	5	5	5	5	5	5
Total funds	58	52	52	52	52	52
Less under/(over) borrowing	29	24	28	25	27	27
Expected						

investments	29	28	24	27	25	25
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- 4.2 Investment balances are forecast to be significantly reduced during 2014-15 as a result of:
- Repayment of £16m existing GF long term borrowing
 - Use of £15m internal borrowing to fund the GF capital programme
 - £20m reduction in HRA reserves due to capital programme expenditure
- 4.3 Investment decisions will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

5 Specified investments

- 5.1 Under the Local Government Act 2003 the Council is required to have regard to the CLG Guidance on Local Government Investments. This requires that investments are split into two categories:
- (i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.
 - (ii) Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.
- 5.2 The detailed conditions attached to each of these categories are set out in the TMP Schedules (TMP4 Approved Instruments, Methods and Techniques).
- 5.3 The majority of the Council's investments in 2015-16 will fall into the category of specified investments.

6 Non-specified investments

- 6.1 Prior to the start of each financial year officers review which categories of non-specified investments they consider could be prudently used in the coming year.
- 6.2 The officer recommendation for 2015-16 is that the following non specified investments may be entered into:
- 6.2.1 Long-term investments (those for periods exceeding 364 days), which could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management.

Amounts deposited for over 364 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits.

Only counterparties in the Council's current approved counterparty list that have limits of over 364 days will be used for such investments.

Any overall stricter limits in force in the Council's investment counterparty policies at any time will take precedence.

The maximum amount that the Council will hold at any time during the year as long-term investments is £5m.

6.2.2 The following items, being non-specified only by virtue of unfamiliarity on the part of the Council's treasury management staff:

- UK Government Gilts
- Treasury Bills
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534
- Reverse Gilt Repos
- Commercial paper
- Gilt funds and other bond funds
- Enhanced money market funds
- Property funds

Before proceeding with any of the above treasury management staff will take advice from the Council's external treasury advisors as appropriate, ensure that they fully understand the product and its risks, and prepare a business plan to be signed off by the Chief Finance Officer.

The business plan will include:

- A clear justification for using the product
- Evaluation of counterparty and other risk
- Procedures and limits for controlling exposure

7 Counterparties

7.1 Over-arching policies for the management of counterparty and credit risk are set out in the TMP Schedules (TMP 1 Risk Management). The Council's approach to counterparties for 2015-16 is set out below:

7.2 The Chief Finance Officer (CFO) will use the recommendations of the creditworthiness service provided by the Council's external treasury advisers to determine suitable counterparties and the maximum period of investment, using the ratings assigned.

7.3 The CFO will determine, in the context of the above, and taking into account appropriate risk management factors:

- Any further criteria to be put in place to determine suitable counterparties
- The maximum investment amount to be held with each type of counterparty assigned a rating

- The maximum investment period with each type of counterparty assigned a rating

7.4 The following table sets out the Council's counterparty criteria for 2015-16.

Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria		
Counterparty Type	NBC Additional Limits – Value per individual counterparty or banking group	NBC Additional Limits - Duration
(1a) UK Government	£20m	3 years
(1b) UK nationalised or part nationalised banking institutions	£20m	3 years
(1c) Other UK counterparties	£15m	3 years
(1d) Other Local Authorities	£10m	3 years
(2a) Non UK counterparties having a sovereign rating of AAA	£15m	3 years
(2b) Non UK counterparties having a sovereign rating of AA+	£10m	3 years
(3) Money Market Funds (CNAV) having a credit rating of AAA	£15m	N/A Liquid deposits

7.5 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is added by the counterparty to the principal investment amount, for example in the case of some call and deposit accounts. In such instances the interest amounts will be withdrawn back to the Council's main bank account as soon as reasonably practicable.

- 7.6 The maximum percentage of the portfolio that may be placed with overseas counterparties at any one time is 50%.
- 7.7 Any types of investments that fall within the category of specified investments as set out in the TMP Schedules (TMP 4 Approved instruments, methods and techniques), and any types of non-specified investments approved as part of this document may be made, within the bounds of the counterparty policies.
- 7.8 The total value of investments over 364 days at any one time is restricted by the treasury indicator for the upper limit on investments for periods longer than 364 days.
- 7.9 The Council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward deposits are to be made, the forward period plus the deal period should not exceed the limits above.
- 7.10 The Chief Finance Officer has discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments. At all times the Council's minimum level of credit risk, as set out in the TMP Schedules (TMP 1 Risk Management), will be met.

8 Liquidity of Investments

- 8.1 Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council's liabilities.
- 8.2 Investment periods range from overnight to 364 days as specified investments, or 3 years as non-specified investments. When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates. As cash balances available for investment are forecast to be somewhat reduced compared to previous years, the preservation of liquidity will be a critical determinant for treasury officers when determining the value and duration of investments.
- 8.3 Amounts deposited for over 364 days will also be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits and the treasury indicator for investments over 364 days. Long term investments of over 2 years will only be made in exceptional circumstances.
- 8.4 For short term and overnight investment the Council makes full use of triple A rated Money Market Funds and appropriate bank call and deposit accounts offering competitive rates and, in most instances, instant access to funds.
- 8.5 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

9 Investments defined as capital expenditure

- 9.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as ‘non-specified investments’.
- 9.2 Investments in “money market funds” which are collective investment schemes and bonds issued by “multilateral development banks” – both defined in SI 2004 No 534 – will not be treated as capital expenditure.
- 9.3 A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

10 Lending to third parties

10.1 Officers will ensure that any loans to or investments in third parties comply with legislative requirements. This would normally, but not necessarily, be under one of the following Acts of Parliament:

- The Localism Act 2011 gives local authorities a general power of competence to act in the same manner as any other legal person, except where those powers are specifically limited by statute.
- The Local Government Act 2000 contains wellbeing powers for local government that allow local authorities to do anything, including to give financial assistance to any person, which they believe is likely to promote or improve the economic, social or environmental well being of their area. Certain conditions, including consultation requirements, must be complied with in order to meet the requirements allowing the local authority to use the wellbeing powers.

10.2 Loans of this nature must be approved by Cabinet.

10.3 The primary aims of the Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan to a third party.

10.4 Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating. In order to ensure security of the Authority’s capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where deemed necessary, additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company.

11 Provisions for credit related losses

- 11.1 If any of the Council's investments appears at risk of loss due to default (i.e. this is a credit related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

12 Local Authority Mortgage Scheme

- 12.1 The Local Authority Mortgage Scheme (LAMS) is currently closed to new participants, but may be re-opened in the future depending on the Help to Buy Guarantee scheme. In the event of this, and should the Council make a decision to participate in the scheme, which requires (in the cash backed variant) the Council to place a matching five year deposit to the life of the mortgage indemnity, this investment will be an integral part of the policy initiative, outside the Council's stated investment strategy and counterparty criteria.

13 Local Impact Funds

- 13.1 In the event that the Council decides to invest in a Local Impact Fund, any such investment being an integral part of the LIF policy initiative, driven by service considerations, will fall outside of the Council's stated investment strategy and counterparty criteria.

14 Banking services

- 14.1 HSBC currently provide banking services for the Council under a contract that runs to 30 September 2016. It is the Council's intention that even if the credit rating of the provider of its banking services falls below the minimum criteria the bank will continue to be used for short term liquidity requirements.

15 End of year investment report

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