

# AMENDED AGENDA

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 16 January 2017

Time: 6.30 p.m.

Venue: Town Hall, High Street,  
Maidstone

Membership:

Councillors Adkinson, Coulling (Parish Representative), Daley, English, Fissenden, Garland, McLoughlin (Chairman), Perry, Revell, Mrs Riden (Parish Representative) and Vizzard

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Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members

**Continued Over/:**

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**Issued on Tuesday 10 January 2017**

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact Debbie Snook on 01622 602030**. To find out more about the work of the Committee, please visit [www.maidstone.gov.uk](http://www.maidstone.gov.uk)

**Alison Broom, Chief Executive, Maidstone Borough Council,  
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 21 November 2016
8. Report of the Interim Head of Legal Partnership - Complaints Received under the Members' Code of Conduct
9. Report of the Interim Head of Revenues and Benefits - Housing Benefit Grant Claim
10. Report of the Director of Finance and Business Improvement - Budget Strategy - Risk Assessment
11. Revised Report of the Director of Finance and Business Improvement - Treasury Management Strategy 2017/18
12. Committee Work Programme 2016/17

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**16 January 2017**

Is the final decision on the recommendations in this report to be made at this meeting?

**No**

### Treasury Management Strategy 2017/18 – Revised Report

<b>Final Decision-Maker</b>	Council
<b>Lead Director</b>	Mark Green, Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	John Owen, Finance Manager Ellie Dunnet, Chief Accountant
<b>Classification</b>	Public
<b>Wards affected</b>	None

**This report makes the following recommendations to this Committee:**

1. That the Audit, Governance and Standards Committee recommends the adoption of the Treasury Management Strategy for 2017/18 attached at **Appendix A** to this report, subject to potential amendments arising following the approval of the capital programme for 2017/18 onwards by the Policy & Resources Committee on 18 January 2017.

**This report relates to the following corporate priorities:**

The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	16 Jan 2017
Council	1 March 2017

# Treasury Management Strategy 2017/18

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report sets out the Draft Treasury Management Strategy for 2017/18 for consideration by the Audit, Governance & Standards Committee and subsequently, recommendation to Council for adoption. The strategy statement and associated documents are attached at appendices A-C to this report.
  - 1.2 The Council has adopted CIPFA's Code on Treasury management (the Code) which requires an annual report on the strategy and plan to be pursued within the coming year to be made to full Council. This report considers the proposed strategy for 2017/18 onwards along with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.
- 2.2 The first function of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 2.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.4 The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA defines treasury management as:  
  
*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 2.5 There have not been any significant revisions to the strategy for 2017/18 from the 2016/17 strategy, which was reviewed by this Committee and

agreed by Council in March 2016 then monitored by his Committee mid-year. However, the following changes should be noted:

- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
- The council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered;
- Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly, as set out in paragraph 2.9;
- The expected level of interest income to be generated through investment returns has been revised downwards in light of the current economic outlook and interest rate forecasts.

2.6 The strategy statement is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and DCLG. It has been developed in line with currently approved spending and financing proposals.

2.7 **Appendix B** details the proposed list of investment counterparties based on current ratings against the selection criteria set out in the strategy.

2.8 The Policy & Resources Committee will consider a capital programme for the period 2017/18 to 2021/22 at its meeting on 18th January 2017. This programme proposes a significant increase in prudential borrowing to support the housing development and regeneration objectives of the Council. Should any changes to this programme be agreed at this meeting then the prudential borrowing limits set out in the attached strategy will require amendment before consideration by Council.

2.9 The following table shows the maximum and expected prudential borrowing required to fund the draft capital programme. The maximum borrowing limit excludes any internal borrowing:

	<b>2017/18</b> <b>£</b>	<b>2018/19</b> <b>£</b>	<b>2019/20</b> <b>£</b>
Capital Programme	13,045,870	16,432,000	14,695,000
Other Funding Streams (incl. New Homes Bonus)	(12,016,000)	(3,859,000)	(3,735,000)
Maximum Prudential Borrowing	1,029,870	12,573,000	10,960,000
Estimated Internal Borrowing	(1,029,870)	(3,570,130)	0
Expected Borrowing	0	9,002,870	10,960,000

2.10 The prudential indicators for the proposed strategy are set out within **Appendix C** to this report.

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### 3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could decide not to recommend the strategy to Council. The Council must adopt a strategy for 2017/18 and should the Committee decide not to recommend the attached strategy it would need to recommend an alternative to Council. The strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council.
- 3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategy prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendment and the risks and benefits that the proposed amendment provides in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing the current strategy.
- 3.2.1 Limits: the proposed strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.
- 3.2.2 Counterparties: the proposed strategy allows non-specified investments with other local authorities and the rated/unrated building societies that are within Arlingclose's suggested counterparty list. The strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action.
- 3.2.3 Alternative use of cash: the resources invested in expenditure could be utilised to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.
- 3.2.4 External Fund Managers: by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

3.3 **Option 3:** The Committee could agree the attached strategy and recommend it to Council. The attached strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG) and has been reviewed by the Council’s Treasury Management Advisors and their recommended amendments have been taken into account.

#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 The recommended option is Option 3, to recommend to Council the strategy set out in Appendix A. In agreeing this option the committee should note the potential change in the level of prudential borrowing if there are any changes to the council’s proposed capital spending plans.

4.2 As stated above, the proposed strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).

#### **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

5.1 No specific consultation has been undertaken in relation to this strategy, however this forms part of the council’s medium term financial strategy for 2017/18 for which detailed consultation has been undertaken.

#### **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

6.1 The final decision on the strategy will be made by Council on 1 March 2017 when it considers the 2017/18 budget and strategic plan update. All three strategies are interlinked and the Council meeting will be able to consider the cross-strategy implications of each decision.

#### **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council’s balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council’s budget.	Director of Finance and Business Improvement
<b>Risk Management</b>	Risk Management is included	Director of

	within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.	Finance and Business Improvement
<b>Financial</b>	Financial implications are covered within the strategy itself.	Director of Finance and Business Improvement
<b>Staffing</b>	None identified.	Director of Finance and Business Improvement
<b>Legal</b>	Legal implications are set out in the body of the strategy.	Director of Finance and Business Improvement
<b>Equality Impact Needs Assessment</b>	None identified.	Director of Finance and Business Improvement
<b>Environmental/Sustainable Development</b>	None identified.	Director of Finance and Business Improvement
<b>Community Safety</b>	None identified.	Director of Finance and Business Improvement
<b>Human Rights Act</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement
<b>Asset Management</b>	None identified.	Director of Finance and



		Business Improvement
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## **8. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy Statement
  - Appendix B: Proposed List of Investment Counterparties
  - Appendix C: Prudential Indicators
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## **9. BACKGROUND PAPERS**

None

**Treasury Management Strategy Statement**  
Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy

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Maidstone Borough Council  
2017/18

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## 1 INTRODUCTION

### 1.1 Background

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

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

The council has adopted the *Treasury Management in Public Services: Code of Practice 2011 Edition* ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA defines treasury management as:

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

### 1.2 Reporting requirements

The Council is required to receive and approve the Treasury Management Strategy, which incorporates a variety of policies, estimates and actuals.

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

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

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

**A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and determining whether any policies require revision if the assumptions on which this strategy is based were to change significantly.

In accordance guidance issued by CLG, the circumstances which may require the council to revise its strategy would include, for example, a large unexpected change in interest rates, or in the council's capital programme or in the level of its investment balance.

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

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

### **1.3 Treasury Management Strategy for 2017/18**

The strategy for 2017/18 covers two main areas:

#### **Capital issues**

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

#### **Treasury management issues**

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy; and
- creditworthiness policy.

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

### **1.4 Treasury management consultants**

The Council uses Arlingclose Limited as its external treasury management advisors.

Responsibility for treasury management decisions ultimately remains within the organisation and officers will not place undue reliance on the advice of external service providers.

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review by the Director of Finance and Business Improvement.

### **1.5 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. A treasury management training session is planned for

January 2017. This will be delivered by Arlingclose and will be open for all members to attend.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

## **2 THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION**

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### **2.1 Capital expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans; those agreed previously, as well as those forming part of this budget cycle. Capital expenditure forecasts are shown below:

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
15,900	13,046	16,432	14,695	11,215

### **2.2 The Council's borrowing need (the Capital Financing Requirement)**

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

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

The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

CFR projections are shown in the table below:

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
(10,223)	(2,993)	9,580	20,540	30,653

## 2.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

### Ratio of financing costs to net revenue stream

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

2016/17	2017/18	2018/19	2019/20	2020/21
%	%	%	%	%
(1.1)	(1.5)	(0.1)	1.2	2.6

2016/17	2017/18	2018/19	2019/20	2020/21
£000	£000	£000	£000	£000
(220)	(281)	(25)	228	491

The estimates of financing costs include current commitments and the proposals in this budget report.

## 2.4 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the five year capital programme recommended in this budget cycle compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support.

### **Incremental impact of capital investment decisions on the band D council tax**

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
<b>Council tax - band D</b>	(0.22)	(0.68)	0.33	1.64	1.54

## 2.5 Minimum Revenue Provision

Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure.

Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual installments over the 15 year life of the contract and it is therefore considered appropriate to base MRP payments on this value and no additional voluntary provision is deemed necessary.

With the real potential for the use of prudential borrowing it is felt appropriate that a policy statement is approved by Council in line with the requirements of the Code. The Code states that there is a choice between two options, or a combination of methods based on the nature of different arrangements:

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

Depreciation method – MRP will follow standard depreciation accounting procedures.

Due to the requirement to split assets into component parts and depreciate different components at different rates, the asset life method of calculating MRP would provide a more stable and transparent method for the Council to use.



### 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Treasury Indicators: limits to borrowing activity

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

<b>Operational boundary</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Debt	0	1,030	13,603	24,563
Other long term liabilities	4,514	4,033	3,526	3,005
<b>Total</b>	<b>4,514</b>	<b>5,063</b>	<b>17,129</b>	<b>27,568</b>

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

<b>Authorised limit</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Debt	4,000	5,030	17,603	28,563
Other long term liabilities	4,514	4,033	3,526	3,005
<b>Total</b>	<b>8,514</b>	<b>9,063</b>	<b>21,129</b>	<b>31,568</b>

### 3.2 Prospects for interest rates

The Council's advisors, Arlingclose Ltd, have provided the following interest rate forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
<b>3-month LIBID rate</b>														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.29</b>
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
<b>1-yr LIBID rate</b>														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
<b>Arlingclose Central Case</b>	<b>0.60</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.60</b>	<b>0.70</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.65</b>
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.40</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.40</b>	<b>0.40</b>	<b>0.40</b>	<b>0.45</b>	<b>0.50</b>	<b>0.55</b>	<b>0.60</b>	<b>0.65</b>	<b>0.45</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
<b>10-yr gilt yield</b>														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
<b>Arlingclose Central Case</b>	<b>1.15</b>	<b>0.95</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.90</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.15</b>	<b>0.96</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
<b>Arlingclose Central Case</b>	<b>1.70</b>	<b>1.50</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.65</b>	<b>1.70</b>	<b>1.75</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
<b>Arlingclose Central Case</b>	<b>1.60</b>	<b>1.40</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.41</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57

#### Forecast:

- § The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- § Arlingclose forecasts that the UK Bank Rate will remain at 0.25% for the foreseeable future, although there is a small possibility that this could reduce to zero and a very small chance of a reduction below zero. Risks remain weighted to the downside.

- § Gilt yields have risen, but remain at low levels. The current forecast from Arlingclose anticipates a decline in yields when the government triggers Article 50.

### 3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high and will be retained for the forthcoming financial year on the assumption that this situation is unlikely to change in the short term. However, if short term cash requirements cannot be met from balances in hand for day to day purposes, the Council has access to a range of sources of short term borrowing options, which includes other local authorities

The Authorised Limit to borrow up to £24.887m for the financing of capital expenditure and day to day cash flow liquidity within 2017/18 is included in the current capital programme and the current prudential indicators. The 2017/18 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move more quickly than the forecast predicts, the current and proposed strategies do allow the section 151 officer to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

### **3.4 Policy on borrowing in advance of need**

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

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

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £18 and £40 million.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

**Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the council aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the proposed £5m that is estimated to be available for longer-term investment. The majority of council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy adopted in 2016/17.

**Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. Additional detail regarding the different types of counterparty is provided below the table.

#### Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£5m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 13 months	£5m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 13 months	£5m 3 years	£3m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£5m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£5m 13 months	£5m 5 years	£3m 13 months	£3m 5 years

BBB+	£2m 35 days	£3m 6 months	£2m 2 years	£2m 6 months	£3m 2 years
None	£1m 100 days	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£8m per fund				

The time limits set out above are consistent with the recommended durations provided by the council's treasury management advisors, Arlingclose. The cash limits have been set with reference to this guidance, although the upper limit in certain categories of investment exceeds the limit proposed by Arlingclose in order to meet the operational requirements of the council. The limits adopted within the strategy remain prudent and consistent with ensuring the security of capital and appropriate levels of liquidity.

**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

**Banks Secured:** Covered bonds, Tri Party Repos, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly

regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

**Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

#### Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	£5m
Total investments without credit ratings or rated below A-	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	£15m

The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles:

**Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause



a reduction in the level of investment income earned, but will protect the principal sum invested.

**Investment Limits:** In order that available reserves will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £8 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£3m each
Loans to unrated corporates	£50,000 each
Money Market Funds	£8m each fund or fund group

**Liquidity Management:** The council uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium term financial plan and cash flow forecast.

#### **Accounting treatment of investments.**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**In-house funds.** The majority of investments will be made with reference to the cash flow requirements so invested for short-term interest rates (i.e. rates for investments up to 12 months). However, there is a provision of funds that can be used for longer term investments (greater than 12 months) if it deemed to be prudent by the section 151 officer.

## 4.2 Investment strategy

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

<b>Maximum principal sums invested &gt; 364 days</b>			
	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Principal sums invested > 364 days	5,000	5,000	5,000

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Upper limit on fixed interest rate exposure	(38,970)	(26,397)	(15,437)
Upper limit on variable interest rate exposure	(32,000)	(32,000)	(32,000)

The upper limit on fixed interest rates incorporates maximum borrowing of £1.030m within the strategy which reduced the negative investment limit within 2017/18. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2017/18.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

### **4.3 End of year investment report**

**4.4** At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report as previously stated within 1.2.

### **4.5 Other Items**

It is a requirement of the Prudential Code of Practice for Treasury Management that authorities have a policy on the use of financial derivatives. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

## **INVESTMENT COUNTERPARTY LIST**

**Appendix B**

### **UK Institutions**

<b>Banks</b>	<b>Group</b>	<b>Unsecured Investments</b>		<b>Credit Rating</b>
		<b>Duration</b>	<b>Amount</b>	
Bank of Scotland Plc	1	13 months	£3,000,000	A+
Barclays Bank Plc		100 days	£3,000,000	A
Close Brothers Limited		6 months	£3,000,000	A
Goldman Sachs Int Bank		100 days	£3,000,000	A
HSBC Bank Plc		13 months	£3,000,000	AA-
Lloyds Bank Plc	1	13 months	£3,000,000	A+
National Westminster Bank Plc	2	35 days	£2,000,000	BBB+
Royal Bank of Scotland Plc	2	35 days	£2,000,000	BBB+
Santander UK Plc		6 Months	£3,000,000	A

<b>Building Societies</b>	<b>Unsecured Investments</b>		<b>Credit Rating</b>
	<b>Duration</b>	<b>Amount</b>	
Coventry Building Society	6 months	£3,000,000	A
Darlington Building Society	100 days	£1,000,000	Unrated
Furness Building Society	100 days	£1,000,000	Unrated
Hinckley & Rugby Building Society	100 days	£1,000,000	Unrated
Leeds Building Society	100 days	£3,000,000	A-
Leek United Building Society	100 days	£1,000,000	Unrated
Loughborough Building Society	100 days	£1,000,000	Unrated
Mansfield Building Society	100 days	£1,000,000	Unrated
Market Harborough Building Society	100 days	£1,000,000	Unrated
Marsden Building Society	100 days	£1,000,000	Unrated
Melton Mowbray Building Society	100 days	£1,000,000	Unrated
National Counties Building Society	100 days	£1,000,000	Unrated
Nationwide Building Society	6 months	£3,000,000	A
Newbury Building Society	100 days	£1,000,000	Unrated
Scottish Building Society	100 days	£1,000,000	Unrated
Stafford Railway Building Society	100 days	£1,000,000	Unrated
Tipton & Coseley Building Society	100 days	£1,000,000	Unrated

<b>Non-UK Institutions</b>	<b>Country</b>	<b>Unsecured Investments</b>		<b>Credit Rating</b>
		<b>Duration</b>	<b>Amount</b>	
Australia & New Zealand Banking Group	Australia	6 months	£3,000,000	AA-
Bank of Montreal	Canada	13 months	£3,000,000	AA-
Bank of Nova Scotia	Canada	13 months	£3,000,000	AA-
Canadian Imperial Bank of Commerce	Canada	13 months	£3,000,000	AA-
Commonwealth Bank of Australia	Australia	6 months	£3,000,000	AA-
Credit Suisse	Switzerland	100 days	£3,000,000	A
Danske Bank	Denmark	100 days	£3,000,000	A
DBS Bank Ltd	Singapore	13 months	£3,000,000	AA-
ING Bank	Netherlands	100 days	£3,000,000	A+
JP Morgan Chase Bank	United States	13 months	£3,000,000	AA-
Landesbank Hessen-Thuringen (Helaba)	Germany	6 months	£3,000,000	A+
National Australia Bank	Australia	6 months	£3,000,000	AA-
Nordea Bank AB	Sweden	13 months	£3,000,000	AA-
OP Corporate Bank	Finland	6 months	£3,000,000	AA-
Oversea-Chinese Banking Corp	Singapore	13 months	£3,000,000	AA-
Rabobank	Netherlands	13 months	£3,000,000	AA-
Royal Bank of Canada	Canada	13 months	£3,000,000	AA
Svenska Handelsbanken	Sweden	13 months	£3,000,000	AA
Toronto Dominion Bank	Canada	13 months	£3,000,000	AA-
United Overseas Bank	Singapore	13 months	£3,000,000	AA-
Westpac Banking Group	Australia	6 months	£3,000,000	AA-

<b>MONEY MARKET FUNDS (AAA RATED)</b>		<b>Amount</b>	
Goldman Sachs		£8,000,000	AAA
Standard Life		£8,000,000	AAA
Federated		£8,000,000	AAA
<b>CASH ENHANCED FUNDS (AAA RATED)</b>		<b>Amount</b>	
Standard Life		£8,000,000	AAA
Federated		£8,000,000	AAA
<b>Government Stock</b>		<b>Amount</b>	
UK Government		Unlimited	AA

## **PRUDENTIAL INDICATORS**

### **Ratio of Financing Costs to Net Revenue Stream**

2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
-1.1	-1.5	-0.1	1.2	2.6
2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-220	-281	-25	228	491

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. Negative figures indicates that more investment interest than prudential borrowing interest, positive figures the opposite is true.

### **Incremental Impact of Capital Investment Decisions on the Council Tax**

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
i) Forecast of total budgetary requirement no changes to capital programme	17,633	19,700	13,641	2,314	1,815
ii) Forecast of total budgetary requirement after changes to capital programme	15,900	13,046	16,432	14,695	11,215
iii) Additional Council Tax Required	-0.22	-0.68	0.33	1.64	1.54

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans.

### **Current Financial Plan**

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
15,900	13,046	16,432	14,695	11,215

This prudential indicator is a summary of the Council's proposed capital expenditure plans.

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### **Capital Financing Requirement**

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-10,223	-2,993	9,580	20,540	30,653

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. It is a measure of the Council's borrowing need to fund the proposed capital programme

## TREASURY MANAGEMENT INDICATORS

### Authorised Limit for External Debt

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	4,000	5,030	17,603	28,563	39,778
Other Long Term Liabilities	4,514	4,033	3,526	3,005	2,483
Total	8,514	9,063	21,129	31,568	42,261

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

### Operational Boundary

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	0	1,030	13,603	24,563	35,778
Other Long Term Liabilities	4,514	4,033	3,526	3,005	2,483
Total	4,514	5,063	17,129	27,568	38,261

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

### Upper Limit for Fixed Interest Rate Exposure

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-40,000	-38,970	-26,397	-15,437	-4,222

This is the maximum amount of net borrowing and investment that can be at a fixed rate. The upper limit on fixed interest rates incorporates expected borrowing which reduced the negative investment limit.

### Upper Limit for Variable Interest Rate Exposure

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-32,000	-32,000	-32,000	-32,000	-32,000

This is the maximum amount of net borrowing and investment that can be at a variable rate. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2017/18

### Maturity Structure of New Fixed Rate Borrowing taken during 2017/18

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	100	0
50 years and within 60 years	100	100
70 years and within 80 years	100	100

This indicator is set to control the Authority's exposure to refinancing risk. Assumption of 50 year borrowing will be used

### Principal Invested for more than 364 Days

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
8,000	5,000	5,000	5,000	5,000

The maximum set aside for long term investment has reduced from £8m to £5m due to funds used for internal borrowing to fund capital programme