Agenda Item No 8(b)

North East Derbyshire District Council

Council

20 February 2017

Treasury Management Strategy 2017/18 - 2020/21

Report of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy, Finance and Regeneration

This report is public

Purpose of the Report

The purpose of this report is to provide Council with the necessary information to approve the Council's Treasury Management Strategy 2017/18 to 2020/21.

1 Report Details

1.1 As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to develop every year a Treasury Management Strategy which requires approval by full Council before the commencement of each financial year. This report outlines the Council's proposed Treasury Management Strategy for the period 2017/18 to 2020/21 for consideration and approval by Council. It fulfils four key requirements:

- The Treasury Management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

- Within the strategy the Council is required to include a number of prudential indicators covering the next four financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

- The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge against the revenue accounts of the Council.

- The report also includes an investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

The above policies and parameters provide an approved framework within which officers undertake the day to day capital and treasury activities.

1.2 The objectives of the Treasury Management Strategy are as follows: -

- To outline the Council's debt position and the impact this has on the revenue accounts;
- To enable Members to reach appropriate judgements on long-term and short-term borrowing and investment strategies;
- To provide a framework within which the day to day liquidity of the Council's cash balances can be managed;
- To provide some key baseline information to enable appropriate reaction in response to changes in the money market to meet the statutory requirements of the Local Government Act 2003;
- To meet the requirements of the CIPFA Treasury Management Code of Practice.

1.3 This strategy includes:

- An outline of the statutory powers relating to the Council's Borrowings
- A review of the Council's outstanding debt position
- A review of how the Council's debt is financed
- Minimum Revenue Provision Policy
- Investments
- Investments Strategy
- Interest rate projections
- The prudential indicators
- Treasury Management operations

The statutory powers relating to the Council's Borrowings

1.4 Before the report considers the full implications of the latest MTFP on the level of the Council's outstanding debt Members are reminded of the prudential code framework that applies to Local Government.

1.5 The Prudential Capital Finance System relies on the provisions of Part 1 of the Local Government Act 2003.

1.6 The key objectives of the prudential code are to ensure that: -

- The capital investment plans of local authorities are affordable, prudent and at sustainable levels;
- To ensure and demonstrate that the local authority is aware of its financial position and therefore able to take corrective action should it be in danger of failing to ensure the above;
- To ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

1.7 By enabling a greater degree of local discretion the Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

1.8 The underlying principle of the Prudential Code is that local authorities are able to borrow without Government consent provided the authority can afford to enter into such commitments. This applies in respect of the General Fund but Council should note that with effect from April 2012 that the power to borrow for HRA purposes is limited by the HRA Debt Ceiling which was introduced as part of the localisation of the HRA.

1.9 It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Authorised Borrowing Limit.

1.10 The Council must have regard to the Prudential Code when setting its Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax/rent levels is acceptable.

1.11 Whilst termed an Authorised Borrowing Limit, the capital plans that need to be considered for inclusion within that limit incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements (leasing). The authorised borrowing limit is required to be set, on a rolling basis, for the forthcoming financial year and three successive financial years.

1.12 Details of the Authorised Borrowing Limits are shown in Section 1.51 of this report.

A review of the Council's outstanding Debt position

1.13 To establish the Treasury Management Strategy for the forthcoming financial year it is essential to understand the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance capital expenditure. The revised estimate of the CFR for 2016/17 and the estimated CFR for 2017/18 to 2020/21 are shown in Table 1:

Table 1

Capital Financing Requirement	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
1 April balance	**171,145**	**167,818**	**165,555**	**160,051**	**154,196**
Prudential Borrowing					
General Fund – Vehicle Replacement	360	180	535	524	1,525
General Fund – RHL Borrowing	1,472	3,097	0	0	0
HRA – North Wingfield New Build Scheme	1,184	1,714	275	0	0
HRA – Stock Purchase Programme	0	1,500	0	0	0
Leasing Repayments	(5)	0	0	0	0
Minimum Revenue Provision (MRP)					
General Debt	(256)	(256)	(256)	(256)	(256)
Pioneer House	(40)	(40)	(40)	(40)	(40)
Vehicle Replacement	(711)	(693)	(688)	(778)	(777)
Repayment of other debt	(281)	(2,715)	(280)	(255)	(220)
Repayment of Allowable Debt	(750)	(750)	(750)	(750)	(750)
HRA Debt Repayment per business plan	(4,300)	(4,300)	(4,300)	(4,300)	(4,300)
Capital Financing Requirement 31 March	**167,818**	**165,555**	**160,051**	**154,196**	**149,378**

1.14 Prudential Borrowing – General Fund

Vehicle replacement: - The Council now funds all vehicle acquisitions by way of outright purchase from prudential borrowing. This is more effective than leasing in similar arrangements. While this approach remains under review the combination of low interest rates and extending vehicle life make outright purchase the most appropriate option at this point in time. The sums shown in the CFR for the vehicle prudential borrowing would have previously been shown as an increase in the leasing arrangements. The figures for each year are in line with the capital programme for the vehicle replacement programme over the period of the MTFP. The cost of the debt charges (principal (MRP) and interest) are included in the General Fund revenue account to pay for the vehicles and these costs replace the leasing payments previously paid to the leasing company.

The overall level of General Fund Prudential Borrowing amounts to £12.711m as at 1st April 2017. Of this amount, £3.044m comprises of loans made to Rykneld Homes in its role as Registered Provider, £2.303m relates to the refurbishment of Dronfield Sports Centre, £2.446m relates to the purchase of Council vehicles, £1.676m relates to the purchase of Pioneer House and £3.242m relates to miscellaneous General Fund Borrowing.

1.15 Prudential Borrowing – HRA

The capital programme includes an HRA scheme to build new homes in North Wingfield. The scheme is estimated to cost the Council £4.902m over the financial years 2016/17, 2017/18 and 2018/19. In order to finance this work prudential borrowing of £3.173m has been recommended to Council as part of the Medium Term Financial Plan.

The capital programme also includes details of the HRA scheme to purchase additional homes in the District. The scheme, which has an overall cost of £3.2m, will be partly funded by one for one capital receipts (£0.960m) with the remaining costs to be funded from the development reserve or prudential borrowing. The scheme has been approved on the basis that the use of prudential borrowing will be minimised, however, a provision of £1.5m is considered necessary should other match funding not be available.

Within the HRA prudential borrowing must not exceed the HRA debt ceiling imposed by the March 2012 HRA settlement. The debt ceiling for the HRA was set at £178,984,000. The table below monitors the HRA debt position against the ceiling over the term of the MTFP based on the known capital expenditure plans within the capital programme.

Table 2 shows the position of the HRA Capital Financing requirement compared to the Government Credit Ceiling. The Council's HRA Business Plan provides for the self financing debt to be repaid within the 30 years of the plan and £4.3m is being set aside from the HRA each year to achieve this. The adjusted headroom shows the capacity to incur further debt up to the credit ceiling after providing for the self financing repayment. It forecasts spare capacity of up to £4.588m by 2020/21.

Table 2

HRA Capital Financing Requirement	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
1 April balance	**158,973**	**155,107**	**153,271**	**148,496**	**143,446**
Prudential Borrowing HRA - North Wingfield New Build Scheme	1,184	1,714	275	0	0
Prudential Borrowing HRA – Stock Purchase Programme	0	1,500	0	0	0
HRA Debt Repayment provision per business plan (self financing)	(4,300)	(4,300)	(4,300)	(4,300)	(4,300)
Repayment of Allowable Debt	(750)	(750)	(750)	(750)	(750)
HRA Capital Financing Requirement 31 March	**155,107**	**153,271**	**148,496**	**143,446**	**138,396**
HRA Credit Ceiling	**178,984**	**178,984**	**178,984**	**178,984**	**178,984**
Unadjusted Headroom available 31 March	**23,877**	**25,713**	**30,488**	**35,538**	**40,588**
Adjusted for the HRA Debt Repayment Provision (self financing)	**(18,800)**	**(23,100)**	**(27,400)**	**(31,700)**	**(36,000)**
Adjusted Headroom available 31 March	**5,077**	**2,613**	**3,088**	**3,838**	**4,588**

1.16 Minimum Revenue Provision (MRP)

The MRP is the amount of principal repayment being made by the Council in the financial year and is the sum charged to the revenue accounts (General Fund and HRA). The MRP policy is outlined in greater detail in sections 1.29 to 1.35.

1.17 Other repayments of debt

This heading covers the debt transferred to the Council in 1974 with the repayment amount equal to the amount of debt repaid by the transferring authorities.

1.18 Repayment of Allowable Debt

When a Council House is sold under the Right to Buy legislation the Council receives a capital receipt for the sale of the asset. Under the current regulations 75% of the receipt is required to be "pooled" and paid over to the Government. However, since the HRA settlement in March 2012, when the Council took on £127m of debt, regulations have been set that means there is a calculation applied prior to the pooling calculation. This calculation allows the Council to retain a portion of the capital receipt before the pooling calculation is applied in order to repay the settlement debt that is attributable to the property being sold. I.e. it ensures that the Council is able to repay the settlement debt related to the property and therefore does not carry outstanding debt on an asset that has been sold. The sum included within the CFR is therefore an estimated amount based on an assumption that approximately 50 Council Houses will be sold each year.

1.19 Summary of Capital Financing Requirement Strategy

The capital financing requirement strategy is driven by the Council's capital expenditure plans and available resources. The detailed capital expenditure plans are contained within the main MTFP report that appears elsewhere on this agenda.

The Housing Revenue Account is forecast to be in a position to set its repayment of the self financing settlement debt at the full level required to repay the debt over the 30 year business plan period. This will reduce interest costs to the HRA and provide wider financing options for future schemes.

How the Council's debt is financed

1.20 The Capital Financing Requirement as set out above calculates the authorities underlying need to borrow for capital purposes. Arising out of the analysis of the debt position the Council can determine how this debt is financed. The CFR also helps to ensure that where the Council is undertaking long term borrowing that such borrowing is being utilised in order to fund capital expenditure, and is not being used inadvertently or otherwise to fund revenue expenditure.

1.21 Table 3 below outlines the current and planned debt financing arrangements over the term of the MTFP.

Table 3

Debt Financing	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
PWLB	155,451	154,149	150,846	149,541	149,238
Temporary Borrowing	2,000	2,000	2,000	2,000	2,000
Internal Borrowing	29,167	32,506	34,605	34,355	34,140
Debt Provision	(18,800)	(23,100)	(27,400)	(31,700)	(36,000)
Capital Financing Requirement	**167,818**	**165,555**	**160,051**	**154,196**	**149,378**

1.22 PWLB Loans

The PWLB loans held by the Council are designed to mature in line with the HRA and General Fund debt repayments detailed within the CFR. Therefore, any PWLB loans maturing over the MTFP period are unlikely to be replaced. However, where cash flow dictates, additional PWLB loans may need to be taken out to offset maturing PWLB loans. PWLB borrowing may be required as the new vehicle capital costs are incurred during 2017/18. Officers keep the cash flow and CFR position under review on a daily basis. Should any PWLB borrowing be required careful consideration will be given to the term and rates selected to retain a balanced debt portfolio. Table 4 below outlines our estimated position for the Council as at 31 March 2017:

Table 4

PWLB BORROWING Term	Estimated Maturity Profile as at 31 March 2017 £
12 Months	1,302,360
1 – 2 years	3,303,087
2 – 3 years	1,304,280
3 – 4 years	303,670
4 – 5 years	2,205,371
5 – 6 years	111,149
6 – 10 years	21,318,225
10 – 15 years	20,466,398
15 – 20 years	40,046,560
20 – 25 years	42,000,000
25 – 30 years	19,090,000
30 – 35 years	0
Over 35 years	4,000,000
Total PWLB Debt	**155,451,100**

The Government has tabled an amendment to the Infrastructure Bill which would allow the Government to abolish the Public Works Loan Board and transfer its lending functions to another body (the Municipal Bond Agency) using the process set out in the Public Bodies Act 2011.

The Government plans to set out its proposals on transferring the lending functions to another body in a consultation document, in due course. This reform is restricted to issues of governance; i.e. it is a change in the machinery of Government. The proposals will have no impact on existing loans held by the Council or on the government's policy on Local Authority borrowing.

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council intends to make use of this new source of borrowing as and when appropriate. Given that borrowing can also be undertaken from other local authorities, generally at preferential rates, then should new borrowing be necessary consideration will be given to undertaking such borrowing direct from other local authorities.

1.23 Leasing Arrangements

The current leasing arrangements relate solely to vehicles utilised in the provision of services. The move away from leasing to prudential borrowing as a means of financing vehicle purchase is reflected in the reduction each year of outstanding leasing balance as the lease is repaid and not replaced. All current finance leasing arrangements will come to an end of March 2017. While prudential borrowing is currently a more advantageous method of financing the acquisition of vehicles and similar items officers will continue to keep the position under review.

1.24 Temporary Borrowing

Table 3 above reflects the forecast borrowing as at 31 March each year to finance the Council's CFR. The £2m shown for temporary borrowing relates to short term borrowing that may be required in late February and March each year. This borrowing is required to cover the cash flow shortfall arising from rent free weeks and from the fact that council tax is not collected in February and March. The associated temporary borrowing is expected to be repaid in April each year.

1.25 Internal Borrowing

The balance between the level of the CFR and external borrowing is made up from the utilisation of internal cash balances held by the Council. This effectively minimises the need for the Council to borrow money from external sources. The Council could borrow externally for all of its CFR requirements which would free up the internal balances to be invested on the money markets. However, officers are of the view that with investment interest rates low and uncertainty in the money markets that this is not an appropriate approach. The current approach is therefore that internal balances are utilised to reduce the overall borrowing requirement of the Council. This is considered the most effective and minimal risk approach in the current climate. This approach will be kept under review on a regular basis and as market conditions change.

1.26 If internal balances do increase more than anticipated over the period of the MTFP then consideration will need to be given either to not replacing PWLB loans as they mature or whether to invest the additional balances to earn interest. The internal cash balances are made up from the General Fund Reserve, HRA balances, Provisions and Earmarked Reserves and any positive cash flows from within the main accounts of the Council.

1.27 Where the Council has internal borrowing it is required under accounting regulations to ensure that the funds of the relevant accounts (HRA and General Fund) are treated equitably. The internal balances of the General Fund and the HRA are therefore paid an interest rate to reflect the level of internal borrowing from these accounts. The Council will apply the short-term interest rate (London Interbank Three Month Bid (LIBID)) to internal borrowing balances.

1.28 Summary of the Proposed Borrowing Strategy 2017/2018

- Any maturing PWLB loans are unlikely to be replaced as they tie in with the HRA CFR debt being repaid. However, officers will be mindful of the impact of the capital expenditure on the vehicle replacement scheme that may trigger the need to undertake some PWLB borrowing during 2017/18. Any new PWLB loans will only be taken if the cash flow position indicates that external borrowing is required and a careful view will be taken on interest rates, market conditions and the Council's debt portfolio;
- Leasing debt will continue to be repaid in accordance with existing contractual arrangements (due to end March 2017);
- Temporary Borrowing will only be utilised where short term cash flow shortages occur;
- Internal balances will be utilised to reduce the need for external borrowing and therefore to minimise investment balances. This approach is to be reviewed each quarter and will consider both changes in the level of balances available and market conditions;
- Officers will monitor the position to ensure that external borrowing remains within the CFR limit during 2017/18;
- The debt financing arrangements as outlined in Table 3 be approved.

Minimum Revenue Provision Policy

1.29 The Council is required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council. Details of the proposed MRP levels for 2017/18 are shown below:

1.30 General Fund

The Council has set a minimum revenue provision for the repayment of General Fund debt that has arisen from supported borrowing approvals (£256,000).

1.31 Pioneer House

The prudential borrowing for Pioneer House is being repaid over a 50 year period which equates to an MRP of £40,000 per annum.

1.32 Vehicle replacement

The MRP required for the prudential borrowing undertaken to finance the purchase of operational vehicles is calculated on a vehicle by vehicle basis based on its estimated life. The MRP amount in total for 2017/18 is £0.693m. All of the vehicles due to be replaced in 2017/18 relate to those utilised by the Grounds Maintenance, Transport and Refuse Collection Services.

1.33 Leased Assets

The current level of anticipated MRP in respect of leased assets along with the year end liability is set out in table 5:

Table 5

Leased Assets	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
Leasing Liability 1 April	5	0	0	0	0
Less MRP	(5)	0	0	0	0
Leasing Liability 31 March	0	0	0	0	0

1.34 HRA Debt Repayments

There is no statutory requirement for the Council to set an MRP in relation to HRA debt. The budgetary provision to repay HRA debt which is proposed for the period of the MTFP is effectively a local decision taken in the light of the requirements to satisfy the Prudential Code namely affordability, prudence and sustainability. This approach also fulfils the requirement to repay the debt during the term of the HRA Business Plan and to ensure the financial sustainability of the HRA.

1.35 Summary of MRP policy arrangements for 2017/18

Table 6

General Fund	**MRP 2017/18 £**
General	256,000
Pioneer House	40,000
Vehicle Replacement	693,231
Total – General Fund	**989,231**

Housing Revenue Account	**MRP 2017/18 £**
Debt Repayment	4,300,000
Total – HRA	**4,300,000**
Overall MRP Total	**5,289,231**

Investments

1.36 The Council monitors its day to day cash flow and forecasts when surplus cash flows will be available for investment during the financial year. This element of the

Treasury Management Strategy informs Members concerning the main principles governing the Council's investment criteria.

1.37 The prime consideration when it comes to investments is first of all the security of the investment closely followed by the liquidity of the investment. Subject to adequate security and liquidity then the yield or return on the investment becomes a consideration.

1.38 In order to ensure that the key principles of security and liquidity are adhered to the Council needs to ensure the following:

- That it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators which have been reported separately. This is set out in greater detail in the section on the Liquidity of Investments below;

- That it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and for monitoring their security. Further details are provided in the Specified and Non-Specified investment sections below.

1.39 Security of Investments

External treasury management advisors are engaged by the Council to provide regular updates on the counterparties who meet the Council's investment criteria. The external treasury management advisors have in place a comprehensive assessment and monitoring criteria process covering the counterparties available to the Council to place investments. The process involves the Treasury Management consultants providing regular updates on their current assessment of all the main counterparties in the money markets. The list utilises the latest ratings from all the main credit rating agencies and supplements this further with information on trading on insurance instruments which the external treasury management advisors use to monitor early warning signals concerning individual counterparties. The counterparties are all rated, based on the risk assessment applied, and each rating represents the maximum period of investment for each counterparty. It is proposed that the Council continues to use the external treasury management advisors counterparty listing – or similar methodology - to assess the status of individual counterparties for investment purposes.

1.40 Liquidity of Investments

The Council will consider and carefully balance the use of specified investments (less than one year) and non-specified investments (greater than one year) to ensure there is appropriate operational liquidity (i.e. that it has sufficient funds to meet the expenditure incurred).

1.41 Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. These would include investments with:

1 The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity);
2. Supranational bonds of less than one year's duration;
3. A local authority (including Parish councils);
4. An investment scheme that has been awarded a high credit rating (where a borrower (or its parent) is required to have a F1 and above short-term credit rating);
5. A body that has been awarded a high credit rating by a credit rating agency (see 4 above) such as a bank, building society or money market fund;
6. Rated Building Societies from the top 20 Building Societies;
7. Non UK banks domiciled in a country which has a sovereign long term rating of AA+.

1.42 Non-Specified Investments

The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. Under the Prudential Code the council is required to review and set limits for the maximum level of long term investments over the forthcoming three years. These limits are part of the mechanisms which ensure that the Council has sufficient funds to meet its expenditure requirements over the period in question. It should be noted that the loans which have been made to Rykneld Homes in their capacity as a Registered Provider have been detailed in the sections dealing with Prudential Borrowing (section 1.14 above). These loans are not included within the category of non specified investments detailed below and accordingly are outside of the agreed limits in respect of non specified investments.

1.43 Non-specified investments are any other type of investment:

1. Supranational Bonds greater than 1 year to maturity

(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

(b) A financial institution that is guaranteed by the United Kingdom Government -The security of interest and principal on maturity is on a par with that of the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

2. Gilt edged securities

Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category 1 above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

3. Building Societies not meeting the basic security requirements under the specified investments.

   The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. These would include the non-rated building societies from the top 20 building societies.

4. Any bank or building society that has a minimum long term credit rating of A- and above. For deposits with a maturity of greater than one year.

5. Any non rated subsidiary of a credit rated institution included in the specified investment category.

6. Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. However this category of investments may be used for a treasury management purpose not related to a service, and in this instance will not be considered as capital expenditure.

7. Other Local Authorities, including Parish Councils.

1.44 Specified Investments Strategy

Specified Investments (less than 12 months) can be made with the counterparties covered by the list in Section 1.41. The Council however is advised to reaffirm the specified investments list criteria which are designed to minimise risk as set out below:

Who we will invest our money with:

- UK Government;
- Top rated UK banks (including part Nationalised Banks);
- The top 20 UK building societies;
- Other local authorities (including Parish Councils);
- AAA rated money market funds;
- Lloyds Bank;
- Non UK banks domiciled in a country which has a sovereign long term rating of AA+;
- All the counterparties above must meet the strict assessment criteria applied by the external treasury management advisors before any investment is made.

Limits and Controls on these investments:

- A limit of £5m to be invested with any individual counterparty;
- A limit of £5m to be invested in any individual AAA rated money market fund;
- Lloyds bank – limited to overnight cash balances up to £5m.
- All lending subject to “on the day” cleared credit checks being undertaken on

the proposed counterparty.

1.45 Non Specified Investments Strategy

The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. Under the Prudential Code the Council is required to review and set limits for the maximum level of long term investments over the forthcoming three years. These limits are part of the mechanisms which ensure that the Council has sufficient funds to meet its expenditure requirements over the period in question. To comply with the Treasury Management Code of Practice the following limits have been set for Non Specified Investments, which will allow officers to undertake such investment:

With regard to non specified investments it is recommended that the following controls should be put in place:

- The overall level of investment in non specified instruments will be limited to one of £10m;
- The counterparties which may be used will be limited to those listed in section 1.45 above;
- No more than £5m as an overall investment limit with any counterparty (i.e. the Council will not invest more than £5m with any counterparty be it specified or non specified investments or both);
- Given that Lloyds bank is the holder of the Council's bank account no non-specified investments will be placed with that institution as it would make it very difficult to limit our level of risk in respect of that bank.

Interest rate projections

1.46 Following advice from the Council's external treasury management advisors. Officers have made the following base rate assumptions with regards interest rates over the term of the MTFP:

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.25%
2020/21	0.25%

It should be noted that the current Bank Base Rate is one of 0.25%.

The Prudential Indicators

1.47 In putting together the Medium Term Financial Plan the Council has had regard to the requirements of the Prudential Code.

1.48 The following are the prudential indicators that have been calculated in respect of this period:-

1.49 Ratio of financing costs to the net revenue stream

Table 7

Ratio of financing costs to net revenue stream					
	2016/17 Estimate	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
	%	%	%	%	%
General Fund	7.24	7.79	7.74	8.63	8.90
HRA	38.74	39.31	40.06	39.63	40.24

The General Fund ratio reflects the impact of the capital programme and the estimated borrowing costs incurred to finance the vehicle replacement each year from prudential borrowing. Each year's figure is a separate calculation which reflects the existing and adds the new borrowing undertaken in that year to finance the capital programme. Therefore if the value of the vehicles to be replaced in the year is particularly high then the calculation will reflect that. A further impact on the calculation of these percentages is the reducing level of general Government Grant received by the Council which reduces the base over which the borrowing costs are divided. Also, the forecast interest rates will affect the interest costs in each calculation.

The HRA ratio is high as a result of the increased interest charges following the transfer of external debt to the Council as part of the HRA reforms and the increased interest costs from the borrowing undertaken for the new housing projects. Council should note that one of the key issues addressed by the 30 Year HRA Business Plan was that of the affordability of the projected level of the HRA debt. The Business Plan demonstrates that the Council's Housing Revenue Account remains financially sustainable taking into account the increased level of borrowing.

1.50 Impact on Council Tax and Rents from prudential borrowing

This indicator measures the impact of prudential borrowing on the revenue accounts of the Council. The indicator takes the cost of the principal (MRP) and interest charges arising from any new borrowing and calculates how much Council Tax and Rents is required to cover these costs. It should be noted that where approval for Prudential Borrowing is sought that Officers develop a financial appraisal which demonstrates that each case of proposed borrowing complies with the requirements of prudence, sustainability and affordability as required by the Prudential Code.

The prudential borrowing in the General Fund relates to the replacement of operational vehicles with the impact on Council Tax amounts being shown in table 8 below. It should be noted however, that the impact on Council Tax that is required to be shown in this indicator does not take account of the fact that there is an offsetting reduction on the General Fund from reduced leasing charges that are already incorporated in currently approved budgets and that some of the debt charges will be recovered from Rykneld Homes Limited under Service Level Agreements.

Table 8

Impact on Council Tax	2016/17	2017/18	2018/19	2019/20	2020/21
Prudential Borrowing for Vehicle Replacement	£2.41	£1.21	£3.60	£3.53	£10.33

The prudential borrowing for the HRA from 2016/17 through to 2018/19 relates to the proposed new build scheme at North Wingfield which plans to provide new homes for social rent, affordable rent and shared ownership. The scheme is estimated to cost the Council £4.902m over the financial years 2016/17, 2017/18 and 2018/19. Prudential borrowing of £1.5m has been included for 2017/18 to part fund a stock purchase scheme utilising 1-4-1 right to buy receipts. In order to finance the HRA schemes prudential borrowing of £4.673m has been recommended to Council as part of the Medium Term Financial Plan.

Table 9

Impact on Housing Weekly Rents	2016/17	2017/18	2018/19	2019/20	2020/21
Prudential Borrowing for HRA schemes	£0.10	£0.26	£0.02	£0.00	£0.00

1.51 Authorised Borrowing Limit

The Authorised Limit for External Debt sets out the maximum level of borrowing which a local authority should enter into, and it covers both borrowing for capital purposes and borrowing for temporary purposes to cover any potential shortfall of revenue cash flow. It is recommended that the limit is set as £10m above the forecast CFR levels.

Table 10

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Authorised Borrowing Limit	177,818	175,555	170,051	164,196	159,378

1.52 Operational Boundary

The Operational Boundary is intended to provide a management tool which helps to assess whether the authority's level of borrowing is in line with its agreed Medium Term Financial Plan and in particular the capital expenditure and capital financing plans. In normal operating circumstances the level of borrowing should not exceed the Operational Boundary. The limit is set at £5m above the forecast CFR levels.

Table 11

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Operational Boundary	172,818	170,555	165,051	159,196	154,378

1.53 To summarise the Operational Boundary is effectively a check to ensure that the Council does not borrow significantly above its CFR at any one time. It provides an operational check on the level of borrowing that the Council is entering into. The Authorised Limit provides the overall control for Treasury Management activity throughout the year.

1.54 Independent of the prudential limits above treasury management officers currently operate with a temporary borrowing limit of £5m. If temporary borrowing ever reached this limit then officers will examine the cause of the breach against cash flow projections which in most cases will prompt the need to consider longer term borrowing arrangements.

1.55 Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

One of the key indicators to ensure that a Council demonstrates sound treasury management practice is compliance with the CIPFA Code of Practice for Treasury Management in the Public Services. This Council has complied with the Code since its introduction on 1st April 2004, and one of the key purposes of the current report is to demonstrate continued compliance with the Code.

1.56 Interest Rate Exposures

In determining its borrowing policy the Council has a choice between opting for fixed or variable interest rates. While variable interest rates are generally cheaper in the short term by their very nature these rates can move up or down in relation to the wider movements on the money markets. While a greater reliance on variable rates will obviously tend to reduce costs in the short term, it does leave the authority open to fluctuations in market interest rates.

In order to protect local authorities against unforeseen fluctuations in interest rates the Prudential Code requires that all authorities establish the following ratios: -

An Upper limit for borrowing that is at fixed rates less investments that are fixed rate investments.

An Upper limit for borrowing that is at variable rates less investments that are variable rate investments

These prudential indicators are designed to ensure that the authority considers the risk that fluctuations in the levels of interest rate can create an unexpected or unbudgeted burden on the authority's finances, against which the authority has to protect itself adequately.

With respect to North East Derbyshire it is recommended that the Council continues to adhere to the limits set out in the following table:

Table 12

	Upper Limit Fixed Interest Rate	Upper Limit Variable Interest Rate
2016/2017	100%	45%
2017/2018	100%	45%
2018/2019	100%	45%
2019/2020	100%	45%
2020/2021	100%	45%

1.57 Maturity Structure of Borrowing
Amount of projected borrowing that is fixed rate maturing in each period

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt that need to be replaced over a relatively short period of time. This ensures that an authority does not find itself in a position of having to replace a large proportion of its debt at a time when interest rates are adverse or uncertain.

Table 13

	Lower Limit	Upper Limit	Forecast Position at 31 March 2018
Under 12 months	0 %	20 %	0.84%
12 months and within 24 months	0 %	20 %	2.12%
24 months and within 5 years	0 %	40 %	2.45%
5 years and within 10 years	0 %	40 %	13.79%
10 years and above	0 %	90 %	80.80%

1.58 Upper limit for principal sums invested for periods longer than 364 days

The risk inherent in the maturity structure of the authority's investment is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance.

Where the authority invests, or plans to invest for periods longer than 364 days, the authority is required to project the maturing of such investments. The authority is required to set an upper limit for the total principal sum invested to final maturities beyond the period end less projected cash balances in the period.

In line with the proposed policies in respect of non specified investments (see Section 1.45) it is proposed that this prudential indicator will be set at £10m for 2017/18 based on cash balances being available for investment. The financial years 2018/19 to 2020/21 are set at the same level but will be subject to review should the forecast position in respect of cash balances change.

Council should note that loans of £3.044m are outstanding with Rykneld Homes limited in respect of its role as a Registered Provider as at 1st April 2017. The loans outstanding will increase to £4.463m over the period of this report. These loans are not included in the non-specified investments and therefore do not form part of Table 14 below.

Table 14

Year	Limit of investments maturing beyond the year end
2017/2018	£10 million
2018/2019	£10 million
2019/2020	£10 million
2020/2021	£10 million

In practice this indicator means that the Council could:

- In 2017/18 invest up to £10m to 31 March 2018 (maximum period of just under two years).
- In 2018/19 invest up to £10m to 31 March 2019 (maximum period of just under two years).
- In 2019/20 invest up to £10m to 31 March 2020 (maximum period of just under three years).
- In 2020/21 invest up to £10m to 31 March 2021 (maximum period of just under four years).

Treasury Management Operations

1.59 Treasury Management Advisors

As mentioned earlier the Council uses an external treasury management advisor. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies;

1.60 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. It should be noted that the Council has recently appointed Arlingclose Ltd as external treasury management advisors, for a period of 3 years commencing October 2016.

1.61 Member and Officer Training

It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Council has addressed these requirements by:

a. Members' individual training and development needs are addressed by a Member Development Programme.
b. Officers attend training seminars held by the external treasury management advisors and CIPFA.

1.62 Banking Contract

The contract with the Councils new banking provider Lloyds Bank commenced on the 10th February 2015 for a period of 7 years.

1.63 Business Continuity Arrangements

As part of the Councils business continuity arrangements officers have sought to set up and provide alternative banking arrangements for the Council should they be required at short notice. These arrangements effectively mean a separate bank account is in place with the required security controls and appropriate officer access to undertake transactions. This account is with Barclays Bank and will only be utilised should a business continuity need or similar issue arise. Officers will continue to review this arrangement.

2 Conclusions and Reasons for Recommendation

2.1 This report outlines the Council's proposed Treasury Management Strategy for the period 2017/18 to 2020/21 for consideration and approval by Council. It fulfils four key requirements:

- The Treasury Management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

- Within the strategy the Council is required to include a number of prudential indicators covering the next three financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

- The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council.

- The report also includes an investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Consultation and Equality Impact

3.1 There are no equality issues arising from this report.

4 Alternative Options and Reasons for Rejection

4.1 Alternative options are considered throughout the report.

5 Implications

5.1 Finance and Risk Implications

5.1.1 These are considered throughout the report.

5.2 Legal Implications including Data Protection

- As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.
- There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

5.3.1 There are no human resource implications arising directly out of this report.

6 Recommendations

6.1 It is recommended that Council approve the Treasury Management Strategy as set out in this report and in particular:

a) Approve the Capital Financing Requirement as summarised in Section 1.13 of this report.

b) Approve the Borrowing Strategy as summarised in Section 1.28 of this report.

c) Approve the Minimum Revenue Provision Policy for 2017/18 as set out in Section 1.29.

d) Approve the Investment Strategy as set out in Section 1.36 for Specified Investments and Section 1.44 for Non Specified investments.

e) Approve the use of the external treasury management advisors Counterparty Weekly List – or similar - to determine the latest assessment of the counterparties that meet the Council's Criteria under section 1.41 and 1.44 before any investment is undertaken.

f) Approve the Prudential Indicators for 2017/18 detailed in Section 1.47 to 1.58 of this report and in particular:

Authorised Borrowing Limit	£175,555,000
Operational Boundary	£170,555,000
Capital Financing Requirement	£165,555,000
Temporary Borrowing limit	£5,000,000

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	N/A
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	N/A
District Wards Affected	N/A
Links to Corporate Plan priorities or Policy Framework	This Treasury Management Strategy is an integral part of the Council's Medium Term Financial Plan which links our financial position to the Corporate Plan and our other service strategies.

8 Document Information

Appendix No	**Title**
N/A	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Accountancy Section	
Report Author	**Contact Number**
Executive Director - Operations Principal Accountant	01246 217053 01246 217079

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