Key Decision Required:	YES	In the Forward Plan:	YES

CABINET

23 JANUARY 2015

REPORT OF THE FINANCE AND TRANSFORMATION PORTFOLIO HOLDER

A.5 ANNUAL TREASURY STRATEGY FOR 2015/16 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek Cabinet's agreement to the Annual Treasury Strategy for 2015/16 (including the Prudential and Treasury indicators) for consultation with the Corporate Management Committee.

EXECUTIVE SUMMARY

- The Annual Treasury Strategy for 2015/16 including as an annex to the strategy the Prudential and Treasury indicators is set out in **Appendix A**

- The Local Government Act 2003 and supporting regulations require the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments, "having regard" to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.

- Under the Prudential Code the Council has freedom over capital expenditure as long as it is prudent, affordable and sustainable. The Prudential Indicators either measure the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems and enable the Council to demonstrate that it is complying with the requirements of the Prudential Code. The Annual Treasury Strategy for 2015/16 covers the various elements that satisfy the requirements of the various codes that govern the borrowing and investment activities of the Council.

- The Treasury Strategy has been prepared in the light of advice received from the Council's Treasury advisors and reflects the latest codes and guidance.

- The Council's investments will be undertaken in accordance with its Treasury Management Practices. If credit ratings remain at their current low levels it is likely that a significant proportion of the Council's investments will continue to be in government securities such as Treasury Bills or with other Local Authorities. However other 'quality' investment opportunities will be explored in consultation with the Council's external advisors to maximise returns on investments within a continuing and overall risk-averse approach.

RECOMMENDATIONS
That Cabinet Approves: a) **The Annual Treasury Strategy for 2015/16 (including Prudential and Treasury Indicators), for submission to the Corporate Management Committee for review.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
The adoption of the Annual Treasury Strategy for 2015/16 will ensure that the Council's Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.
FINANCE, OTHER RESOURCES AND RISK
Finance and other resources Treasury Management Strategies and procedures will ensure that the Council's investments and borrowing will be undertaken in such a way as to minimise the Council's exposure to risk. At the same time they will maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk. **Risk** The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.
LEGAL
The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving an Annual Treasury Strategy based on the requirements of the relevant and updated codes, the Council is complying with the regulations.
OTHER IMPLICATIONS
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below. **Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.** There are no other implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION
The Annual Treasury Strategy for 2015/16 is set out in **Appendix A** and is based on CIPFA's latest Code of Practice. No significant changes are proposed with limited amendments in areas such as the general economic outlook and interest rate forecasts, with the Council maintaining a very low risk appetite approach to its treasury activities. In respect of CIPFA's Treasury Management Code of practice, the most recent and fundamental revision to the code was in 2009, which this Council formally adopted in March 2010. Revisions have been made to this code since 2010 which have been incorporated within subsequent Annual Treasury Strategies where relevant. By approving the Annual Treasury Strategy for 2015/16, the Council is in effect adopting the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2011 code'). In accordance with the relevant codes, the Treasury Strategy is subject to consultation with the Corporate Management Committee before being recommended to Council for approval before the start of each financial year.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Appendix A - Annual Treasury Strategy 2015/16

APPENDIX

Tendring
District Council

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ANNUAL TREASURY STRATEGY FOR 2015/16

Annual Treasury Strategy for 2015/16

The Annual Treasury Strategy has been prepared in accordance with the CIPFA Code and includes the following sections.

1. Background
2. Treasury Limits for 2015/16 to 2017/18
3. Prudential and Treasury Indicators for 2015/16 to 2017/18
4. Current Portfolio Position
5. Borrowing Requirement
6. Economic Position
7. Interest Rates
8. Borrowing strategy
    - 8.1 External v internal borrowing
    - 8.2 Gross and Net Debt Positions
    - 8.3 Policy on borrowing in advance of need
9. Debt Rescheduling
10. Annual Investment Strategy
    - 10.1 Investment Policy
    - 10.2 Creditworthiness Policy
    - 10.3 Credit Limits
    - 10.4 Country Limits
    - 10.5 Investment Strategy
    - 10.6 Allocation of Investment returns between GF and HRA.
    - 10.7 End of year investment report

1. Background

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Council's risk appetite is low and it has taken, historically, a risk-averse approach to Treasury Management, with the security and liquidity of the investment the prime concern, and the budget for income from investments being formulated on this basis. The Annual Strategy for 2015/16 is based on this risk-averse approach continuing.

For a number of years the Council has engaged the services of treasury advisors to provide its officers with advice on treasury management issues. The current advisors are Capita Asset Services, Treasury solutions (Formerly called Sector Treasury Services) (Sector). However the final decision and responsibility for the actions taken sits with the Council's own officers after considering that advice.

The details of the delegations and responsibilities for treasury management are contained within the Council's Constitution as follows:-

- Part 3 – delegated powers - Responsibilities of Cabinet
- Part 3 – delegated powers – Finance and Transformation Portfolio Holder and delegation to officers
- Part 5 – Financial Procedure Rules

2. Treasury Limits for 2015/16 to 2017/18

It is a statutory duty under Section 3 of the Act 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 "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised 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 and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in **Annex 1** of this report.

The authorised limit reflects the additional borrowing requirement as part of the Housing Revenue Account (HRA) self-financing reforms. The Housing self-financing reforms also set an overall 'debt cap' for the HRA which in itself reflects an affordability level based on the Government's model of how much debt can be supported by the HRA after considering the forecast of income from rents and management and maintenance costs over a 30 year period.

As part of the Autumn Statement 2013, the Government announced that they will increase local authority HRA borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated across authorities on a competitive basis and agreed by LEPs. Access to this additional borrowing would be subject to separate review during the year if required but would be undertaken within the framework of this strategy.

3. Prudential and Treasury Indicators for 2015/16 to 2017/18

Prudential and Treasury Indicators (as set out in **Annex 1**) are relevant for the purposes of setting an integrated Treasury Management Strategy. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The latest revision to the Code is effectively adopted via the approval of this Strategy which reflects the most up to date code and guidance.

4. Current Portfolio Position

The Council's treasury position at the end of December 2014 comprised:

- GF borrowing from The Public Works Loan Board (PWLB) of £1.440m at fixed rates at an average rate of interest of 8.26%
- HRA borrowing from the PWLB of £49.469m at fixed rates at an average rate of 3.22%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £42.769m at an average rate of interest of 0.38%.

5. Borrowing Requirement

No new, alternative or replacement borrowing is forecast for the Council's General Fund or HRA for the period 2014/15 to 2017/18. This position excludes any assumptions on additional borrowing undertaken as part of the HRA business plan which will be subject to further consideration as necessary.

6. Economic Position

Within the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and significant world events have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the econcomy. It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods.

The US economy has managed to continue growing during 2014 with an estimated annual rate of just over 2%. The Federal Reserve started to reduce its monthly asset purchases of $85bn in December 2013 by $10bn per month and these ended in October 2014. Other concerns continue such as Chinese growth may not reach the 7.5% target as recent data has been mixed.

UK economy

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and 2014 propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone. There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established.

The CPI has fallen sharply during 2014 to 1.2% in September 2014. Indications are that inflation is likely to fall further, to possibly near 1% and then to remain near to, or under, the 2% target level over the MPC's two year ahead time horizon. Overall, markets are expecting that the MPC will be cautious in raising the Bank Rate so a first increase is now expected in quarter 4 of 2015.

7. Interest Rates

The following table gives the Council's External Treasury Advisor's view on Bank Rate movements and their forecast for the PWLB new borrowing rate based on that view. The PWLB rates are based on the new Certainty Rate introduced by the Government for local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. Investment returns are likely to remain relatively low during 2015/16 and beyond.

	Bank Rate	LIBID			PWLB Borrowing Rate			
		3 month	6 month	12 month	5 yr.	10 yr.	25 yr.	50 yr.
Mar 2015	0.50	0.50	0.70	0.90	2.20	2.80	3.40	3.40
Jun 2015	0.50	0.50	0.70	1.00	2.20	2.80	3.50	3.50
Sep 2015	0.50	0.60	0.80	1.10	2.30	3.00	3.70	3.70
Dec 2015	0.75	0.80	1.00	1.30	2.50	3.20	3.80	3.80
Mar 2016	0.75	0.90	1.10	1.40	2.60	3.30	4.00	4.00
Jun 2016	1.00	1.10	1.20	1.50	2.80	3.50	4.20	4.20
Sep 2016	1.00	1.10	1.30	1.60	2.90	3.60	4.30	4.30
Dec 2016	1.25	1.30	1.50	1.80	3.00	3.70	4.40	4.40
Mar 2017	1.25	1.40	1.60	1.90	3.20	3.80	4.50	4.50
Jun 2017	1.50	1.50	1.70	2.00	3.30	3.90	4.60	4.60
Sep 2017	1.75	1.80	2.00	2.30	3.40	4.00	4.70	4.70
Dec 2017	1.75	1.90	2.10	2.40	3.50	4.10	4.70	4.70
Mar 2018	2.00	2.10	2.30	2.60	3.60	4.20	4.80	4.80

8. Borrowing Strategy

8.1 External v Internal Borrowing

The main Prudential Indicator relevant to capital investment is the Capital Financing Requirement (CFR). This is the total outstanding capital expenditure that has not yet been funded from either revenue or capital resources and is therefore a measure of the Council’s underlying borrowing need after taking into account the provision included in the revenue budgets for the repayment of outstanding debt.

The borrowing to finance the capital expenditure can be either from external sources or the Council can use its own internal resources.

The planned external debt compared to the CFR over 5 years is shown in the following table, the difference between the two being the amount the Council has funded from internal resources. This is also set out separately for the GF and the HRA. This excludes other long term liabilities such as long term creditors and pensions which form part of the separate Financial Strategy process of the Council from a prudential perspective.

Total External Debt

	Revised 2014/15	Estimate 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	£000’s	£000’s	£000’s	£000’s	£000’s
Debt as at 1 April	52,550	50,344	48,117	45,869	43,898
Estimated	(2,206)	(2,227)	(2,248)	(1,971)	(1,822)

change in debt					
Estimated debt as at 31 March	50,344	48,117	45,869	43,898	42,076
CFR as at 31 March	**55,710**	**53,478**	**51,257**	**49,347**	**47,447**
Difference - internally financed	5,366	5,361	5,388	5,449	5,371

General Fund External Debt

	Revised 2014/15	Estimate 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	1,559	1,317	1,055	771	464
Estimated repayment of debt	(242)	(262)	(284)	(307)	(158)
Estimated debt as at 31 March	1,317	1,055	771	464	306
CFR as at 31 March	**6,683**	**6,416**	**6,159**	**5,913**	**5,677**
Forecast of internal financing	5,366	5,361	5,388	5,449	5,371

HRA External Debt

	Revised 2014/15	Estimate 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	50,991	49,027	47,062	45,098	43,434
Estimated repayment of debt	(1,964)	(1,965)	(1,964)	(1,664)	(1,664)
Estimated debt as at 31 March	49,027	47,062	45,098	43,434	41,770
CFR as at 31 March	**49,027**	**47,062**	**45,098**	**43,434**	**41,770**
Forecast of internal financing	0	0	0	0	0

In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is high, and will be continued.

The Council's officers have made an assessment, based on advice from treasury advisors, of the amount of internal resources that it is prudent to use to finance capital expenditure and it is felt, taking into account the Council's financial position, that approximately £4m-£5m would at the present time and over the medium term be an appropriate level of internal borrowing. A maturity loan of £1m fell due for repayment in 2014 but this was not replaced which has led to the current internal borrowing position running just ahead of the £5m level. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors.

The use of internal resources is only a temporary solution as, in time, these reserves and capital receipts will be utilised to finance service initiatives and capital investment and at that point will not be available. This will need to be balanced against the replacement external borrowing which will be required at some point in the future which may attract higher rates of interest, so timing of such borrowing will need to consider forecasted rates of interest against the various types of borrowing structure to determine the most advantageous approach. Against this approach consideration may be required to borrow in advance of need, as set out in section 8.3 below, so as to reduce the need to borrow when interest rates may be higher.

8.2 Gross Debt v Investments

A comparison between the Council's gross and net borrowing position helps to assess the credit risk that would apply if the Council has surplus resources invested at a low interest rate which could be used to repay existing debt or to negate the need for additional new debt if at higher interest rates than that being achieved on the investments.

The table below sets out the Council's probable position taking account of both the individual GF and HRA debt figures.

Comparison of gross and net debt positions at year end	2013/14	2014/15	2015/16	2016/17	2017/18
	actual	Probable out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
General Fund external debt (gross)	1,559	1,317	1,055	771	464

HRA external debt (gross)	50,991	49,027	47,062	45,098	43,434
Investments	40,220	37,500	15,000	15,000	15,000
Net debt	**12,330**	**12,844**	**33,117**	**30,869**	**28,898**

The net debt positions show that the Council does not have excess resources which could be used to repay long term debt.

If opportunity arises, external debt will be repaid early, although this is difficult under current arrangements as set out in section 9. If borrowing is required then any requirement will be considered whilst balancing internal resources and forecasted interest rates within the parameters previously set out.

Against this background caution will be adopted within the 2015/16 treasury operations. Interest rates will be monitored and a pragmatic approach adopted to changing circumstances with appropriate action taken in accordance with the Council's Financial Procedure Rules.

8.3 Policy on borrowing in advance of need

The Council cannot 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

9. Debt Rescheduling

Officers together with the treasury advisors examine on a regular basis the potential for undertaking early repayment of some external debt to the PWLB in order to maximise any potential financial advantages to the Council. However, the continuing and significant difference between new borrowing and repayment rates has meant that large premiums would be incurred by such action and cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or repayment rates change substantially.

As short term borrowing rates will be cheaper than longer term rates there may be some potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing these short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

Any opportunities for debt rescheduling will be considered if such action would be advantageous to the Council. The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the strategy outlined above
- enhance the balance of the portfolio

Consideration will also be given to identifying if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

10. Annual Investment Strategy

10.1 Investment Policy

The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments, the latest CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes (the Code) along with any relevant revisions or updates. The Council's investment priorities when investing are: -

- The security of capital and
- The liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with these main priorities. It is important to note that the borrowing of monies purely to invest or on-lend and make a return is unlawful.

Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

The majority of the Council’s investments will be in Specified Investments although limited investments may be made in Non- Specified investments.

The Council does not intend to use derivative instruments as part of its treasury activities during the year.

10.2 Creditworthiness Policy and changes to the credit rating methodology

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. In determining the appropriate credit rating the Council will use the lowest rating available to determine the investment limits both in terms of amount and period for a particular counterparty. This is in accordance with the recommendations of The Code. Counterparties rated by only one agency will not be used.

One of the credit rating agencies may be more aggressive in giving lower ratings than the other two agencies and this could result in the Council’s counterparty list becoming too restrictive. If this happens the position will be discussed with the Council’s treasury advisors and the Treasury Management Practices may need to be revised.

- All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Creditworthiness Service provided by the Council’s external advisors which is received each morning via email and uploaded to the Treasury Management system.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use for a new investment will be withdrawn immediately.

The Code also recommends that credit ratings are not the sole determinant of creditworthiness and therefore the Council will also use available market information from a variety of sources including

1. The Creditworthiness Service utilises movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. This creditworthiness service information will be used to confirm the assessed creditworthiness derived from the three ratings agencies. Where the information from this service indicates a lower standing for a particular counterparty than that derived via the credit ratings then the investment limits and length of investments applicable to that counterparty will be adjusted accordingly or the counterparty removed from the list.
2. Market data and information,

3. Information on government support for banks and the credit ratings of that government support

10.3 Credit Limits

Through its approved Treasury Management Practices the Council will set maximum limits for the amount that can be invested with any counterparty. This limit will be determined by reference to the counterparty's credit rating and other criteria. In addition the amount invested in building societies and Certificates of Deposit is also limited to 50% of the total investment portfolio.

100% of the Council's investments may be in Treasury Bills or Gilts or invested with the Government's Debt Management Office (DMO). Although these sums are very secure the rate of interest is usually lower than the market rate, however Treasury Bills are a valuable tool in providing security and liquidity whilst the DMO offers a variety of investment terms and is a valuable source of investment should credit ratings of other financial institutions result in a reduction in the number of counterparties that meet the Council's minimum credit rating criteria. There is no limit on the amount that can be invested with other local authorities in total, although there is a limit of £4 million with each individual local authority.

10.4 Country Limits

The Council has determined that it will only use approved counterparties from the UK and those countries with a minimum sovereign credit rating of AA or equivalent from the relevant rating agencies.

In a similar way that individual counterparties have a maximum investment limit, countries other than the UK will also have a limit.

10.5 Investment Strategy

The Council's funds are managed in-house and are mainly cash flow based but there is a core balance that could be available for investment for longer periods (2-3 years). Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The bank rate is now forecast to commence rising towards the end of 2015 but then to rise steadily from thereon (see Section 7). The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile without compromising the Council's priority of security of the investments.

For 2015/16 the Council has budgeted for investment returns based on the principles set out in this strategy including the forecast position on interest rates.

For its cash flow generated balances the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest. At the present time these short dated deposits are paying interest rates at or above base rate and provide a good level of liquidity to help manage the Council's cash flow.

10.6 Allocation of Investment returns between GF and HRA

As part of the introduction of HRA Self Financing a policy on the allocation of investments returns across the GF and HRA now forms part of the Annual Treasury Strategy.

The HRA holds balances and would benefit from cash flow advantages, which are amalgamated for the purposes of the overall investment activity of the Council. At the end of each year the transfer to the HRA of its share of the authorities overall investment returns will be agreed by the S151 Officer in consultation with the relevant officers based on the following principles:

- Equity
- Risk Sharing
- Minimising volatility between years

10.7 End of year investment report

At the end of the financial year the Cabinet will receive a report on its investment activity.

GLOSSARY OF TERMS

Affordable borrowing limit – limit that the Council has to set under the CIPFA Prudential Code that shows how much the Council considers it can afford to borrow taking all its outgoings into consideration and how much income it considers it can generate.

Alternative financing arrangements – how the Council intends to finance its capital expenditure by other means besides borrowing.

Authorised limit – the amount the Council determines is the maximum that can be borrowed that is affordable and has been calculated in accordance with the legislation behind the CIPFA Prudential Code.

Borrowing requirement – how much the Council considers it needs to borrow to fund its spending plans.

CFR – Capital Financing Requirement – this calculation shows how much the Council needs to borrow or finance by some other measure to meet its planned capital spend.

Counterparty – the other party that participates when a loan or investment is placed.

CPI – Consumer Price Index – the Government's preferred measure of inflation, based on a set basket of goods and services. It excludes housing costs such as mortgage interest payments and council tax.

Credit arrangement – any quasi-loan, to ensure the legislation and Code pick up any unusual arrangements to provide funding other than from a straightforward loan

Credit default swap - A swap designed to transfer the credit exposure of fixed income products between parties. A credit default swap is also referred to as a credit derivative contract, where the purchaser of the swap makes payments up until the maturity date of a contract. Payments are made to the seller of the swap. In return, the seller agrees to pay off a third party debt if this party defaults on the loan. A CDS is considered insurance against non-payment. A buyer of a CDS might be speculating on the possibility that the third party will indeed default.

Credit limit – the maximum amount that can be lent to an individual organisation or group of organisations.

Credit rating – provided by one of the three credit rating agencies, an assessment of how likely the organisation is to repay any monies lent to it.

Creditworthiness - An assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default.

Debt cap (HRA) – the limit on the amount that can be borrowed by the HRA, set by central government.

Earmarked reserves – reserves that have been set aside for a specified purpose.

GDP – Gross Domestic Product – measures the output from the economy, if it rises then the economy is growing, if it falls the economy is in recession.

iTraxx - A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Non-specified investment – those types of investment the Council has not determined it is appropriate to use.

Prudential indicators – a series of calculated figures specified in the CIPFA Prudential Code which are used to assess how affordable and realistic the Council's spending and financing plans are.

PWLB – Public Works Loans Board – central government lending to other public sector bodies, specifically local government.

PWLB Certainty Rate – The PWLB sets various rates for borrowing. From 1 November 2012 the Government reduced the interest rates on loans from PWLB to Councils who provide information as required on their planned long-term borrowing and capital spending by 0.20%. This reduced rate is called the Certainty Rate.

Replacement borrowing – borrowing taken out to replace other borrowing or other forms of credit that have been repaid.

RPI – Retail Price Index – another inflation index, this one includes the cost of housing.

Specified investments – those types of investment the Council has determined it is appropriate to use.

Prudential Indicators

Indicator Title	2013/14 Actual	2014/15 Revised	2015/16	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Capital Expenditure	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Non -HRA	2,271	19,243	27,151	1,123	1,147	890
HRA	3,276	6,275	4,395	4,250	4,244	4,238
TOTAL	**5,547**	**25,518**	**31,546**	**5,373**	**5,391**	**5,128**
Ratio of Financing Costs to Net Revenue Stream						
Non –HRA	2.11%	1.29%	0.92%	0.69%	0.45%	0.22%
HRA	44.58%	59.56%	54.39%	51.93%	50.67%	49.44%
TOTAL	**46.69%**	**60.85%**	**55.30%**	**52.62%**	**51.12%**	**49.66%**
If the Council had funded the proposed capital investment and associated ongoing costs by a direct charge on Council Tax alone the **estimate of the incremental impact of capital investment decisions on the Council Tax** would have been as follows.	-	-	**£69.78**	**£0.00**	**£0.00**	**£0.00**

Prudential Indicators (cont.)

Indicator Title	2013/14 Actual	2014/15 Revised	2015/16	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	-	-	**£0.93**	**£6.13**	**£5.96**	**£5.93**
Estimates of Capital Financing Requirement						
Non -HRA	6,961	6,682	6,415	6,158	5,912	5,676
HRA	50,992	49,028	47,063	45,099	43,435	41,771
TOTAL	**57,953**	**55,710**	**53,478**	**51,257**	**49,347**	**47,447**
Gross Debt and the Capital Financing Requirement						
Capital Financing Requirement	57,953	55,710	53,478	51,257	49,347	47,447
External Debt	52,931	50,344	48,117	45,869	43,898	42,076
Internal borrowing	5,022	5,366	5,361	5,388	5,449	5,371
Debt Cap (Housing Revenue Account) Debt cap amount as determined by CLG	60,285	60,285	60,285	60,285	60,285	60,285

Treasury indicators

Indicator Title	2013/14 Actual	2014/15 Revised	2015/16	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Has the Authority adopted the *'CIPFA Code of practice for Treasury management in the public sector'*	Yes	Yes	Yes	Yes	Yes	Yes
Authorised Limit (of external debt)						
Borrowing	78,790	82,154	83,383	75,406	75,269	75,028
Other long Term Liabilities	-	-	-	-	-	-
	78,790	**82,154**	**83,383**	**75,406**	**75,269**	**75,028**
Operational Boundary (of External Debt)						
Borrowing	68,932	73,939	75,045	67,865	67,742	67,526
Other long Term Liabilities	-	-	-	-	-	-
	68,932	**73,939**	**75,045**	**67,865**	**67,742**	**67,526**
Interest Rate Exposures						
Upper Limit for Fixed Interest Rates	57,953	55,710	53,478	51,257	49,347	47,447
Upper Limit for Variable Interest Rates	17,386	16,713	16,043	15,377	14,804	14,234
Gross and Net Debt						
Upper limit on the proportion of net debt compared to gross debt	-	100.00%	100.00%	100.00%	100.00%	100.00%
Prudential Limits for Principal Sums Invested for Periods Longer than 364 days	Nil	3,500	3,500	3,500	3,500	3,500

Maturity Structure of Fixed rate Borrowing

Indicator Title	2013/14 Actual	2014/15 Revised	2015/16	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Upper and Lower Limits for the Maturity Structure of Borrowing						
Upper Limit for the Maturity Structure of Borrowing						
Under 12 months	4.89%	25%	25%	25%	25%	25%
12 months and within 24 months	4.21%	30%	30%	30%	30%	30%
24 months and within 5 years	11.41%	60%	60%	60%	60%	60%
5 years and within 10 years	16.62%	75%	75%	75%	75%	75%
10 years and above	62.87%	95%	95%	95%	95%	95%
Lower Limit for the Maturity Structure of Borrowing						
Under 12 months	4.89%	0%	0%	0%	0%	0%
12 months and within 24 months	4.21%	0%	0%	0%	0%	0%
24 months and within 5 years	11.41%	0%	0%	0%	0%	0%
5 years and within 10 years	16.62%	0%	0%	0%	0%	0%
10 years and above	62.87%	25%	25%	25%	25%	25%