APPENDIX 9

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16 to 2019/20

SUMMARY

The Treasury Management and Investment Strategy represent the Council's operating guidelines on the daily management of cash, investments and borrowing. Through daily cashflow management, surplus cash is invested with security of investments being the prime consideration. Only then are the liquidity of investments and yield, within the Council's risk parameters, considered.

Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy is to minimise borrowing and make use of internal funds where available. Currently, there is no expectation to take out new debt until 2016/17. As interest rates are expected to remain low in the near future, using internal funds rather than borrowing will reduce interest costs, lower credit risk, and relieve pressure on the Council's Counterparty List.

This report details the investment instruments and counterparties in which the Council can invest. All institutions on the Counterparty List are regularly monitored assessing risk and determining the duration and value of limits on investments with counterparties. From January 2015, new banking legislation has been introduced removing government support of failing banks which increases the risk facing Local Authorities unsecured investments. To offset this risk the Council has introduced access to secured deposits through Reverse Repurchase Agreements and proposes adding Covered Bonds and Pooled Funds to the available investment instruments.

To further diversify exposure the Council has increased the number of eligible counterparties in which it can place funds including more highly rated overseas banks plus UK bank Goldman Sachs International and Coventry Building Society. The proposed overseas banks have a superior credit rating to most of the UK banks currently being used.

1. INTRODUCTION

1.1 Under the Local Government Act 2003 the Council has a legal obligation to have regard to both the CIPFA Code and DCLG Guidance on local authority investments in determining their Treasury Management Strategy Statement (TMSS), Prudential Indicators and Minimum Revenue Provision Statement for the following financial year. The strategy is developed as part of the Council's MTFF process.

1.2 The Council has significant investments and borrowing and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk there is still some risk exposure due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of both the economic outlook and changes in regulations is undertaken which define many of the changes in treasury management strategy and risk parameters.

1.3 Whilst there is evidence of growth in the UK economy, the general market expectations is that interest rates will not begin to rise until the start of 2016. Once the base rate begins to rise, it is expected to rise slowly levelling off around 2.5% to 3.5%. Returns on investments during 2015/16 are therefore forecast to remain low and as a result, internal resources will be used rather than taking out new debt to support the Capital programme.

2. BALANCE SHEET AND TREASURY POSITION

2.1 The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not yet been financed from Council resources. Estimates of the CFR, based on the projected Revenue Budget and Capital programme over the next five years are shown in table 1. The Council's opening CFR is set at £407m for 2015/16, outstanding loans total £327m at the beginning of the year, resulting in a gross borrowing requirement of £80m. Existing borrowing is identified into separate loan pools for GF and HRA. GF debt is currently £83m and HRA £244m.

Table 1

	2014/15 Estimate £m	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
General Fund CFR	196	231	263	280	282	276
HRA CFR	211	211	202	194	185	177
Total CFR	**407**	**442**	**465**	**474**	**467**	**453**
Existing Borrowing 1&2	327	315	307	291	273	256
Gross External Borrowing required to meet CFR	**80**	**127**	**158**	**183**	**194**	**197**
Projected Usable Reserves 3	133	117	98	75	67	69
Projected Working Capital	40	40	40	40	40	40
Investments / (New Borrowing Required)	**93**	**30**	**(20)**	**(68)**	**(87)**	**(88)**

Notes:

1. HRA borrowing includes £191.6m paid to central government in settlement on the introduction of the self financing regime introduced in March 2012.
2. The existing profile of borrowing does not include potential LOBO loan maturities which may or may not occur. Over the next five years, loans totalling £13m, £14m, £5m, £10m and £6m respectively will be in a state of call. Other long term liabilities include commitments under finance leases and private finance initiatives (PFI’s).
3. The balances and reserves figures quoted above relate to core General Fund and HRA balances only. They do not include those balances on the Balance Sheet where the Council has no direct control, such as schools’ reserves.

2.2 The increasing General Fund CFR is due to the Council’s programme of capital investment, particularly the schools Capital programme, whilst the reducing HRA CFR is as a result of repayment of debt transferred from central government. The Council expects to require additional borrowing from 2016/17 to meet the costs of the Capital programme.

2.3 Under the Prudential Code for Local Authorities, the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this requirement.

2.4 The Council's projected Capital programme over the next five years, alongside the projected financing, is fundamental in determining a borrowing strategy. Annex A provides detail on the Prudential Indicators associated with capital expenditure projections and its incremental impact on council tax and housing rent levels.

3. BORROWING STRATEGY

3.1 The Council's external debt at 31 March 2015 will be £327m, a decrease of £9.3m on the previous year as a result of debt maturing naturally. There were no opportunities to repay debt early in 2014/15 and £12.3m is scheduled for repayment in 2015/16. The Council's loan portfolio currently has average interest rate of 3.00%.

3.2 Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 1 above shows the Council does not expect to need to borrow until 2016/17. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains negative and this is expected to continue through 2015/16. The 'cost of carry' associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing would not be cost effective when internal balances and working capital can be utilised over borrowing in advance of need. This also reduces credit risk and takes pressure off the Council's Counterparty List.

3.3 If however market conditions change and the Council takes out new borrowing the Council will consider the following approved sources of borrowing:

- Public Works Loan Board and its successor body
- UK local authorities
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hillingdon Pension Fund)
- Capital market bond investors
- Municipal Bonds Agency (subject to Cabinet approval)

3.4 Although a mix of borrowing options will always be considered, the PWLB (or equivalent) will remain the primary source of long-term and variable rate borrowing whilst rates remain closely linked to government gilts. The Council currently has access to the preferential PWLB "certainty rate", which is 0.2% lower than normal PWLB lending rates.

3.5 Where temporary borrowing is required this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.

3.6 To cover unexpected cash flow shortages, the Council may borrow short term loans, normally for up to one month, which would mainly be sourced from other local authorities.

Interest Rate Risk

3.7 The Council holds a mixture of loans, with £266m of fixed rate loans protected against interest rate rises. Variable rate loans of £61m take advantage of favourably low rates and although exposed to increases in rates, any additional costs would be offset by a corresponding increase in investment income. Additionally, the variable rate loans held can be prematurely repaid with minimal cost should the need arise.

3.8 The Council has £48m of Lender's Option Borrower's Option (LOBO) loans of which £13m will be in their call period in 2015/16. It is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the new terms and also the option of repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the approved sources. The default position however will be early repayment without penalty. The Council does not intend to utilise LOBOs as an instrument for new borrowing during 2015/16.

Debt Rescheduling

3.9 The PWLB allows authorities to repay loans before maturity at a premium or discount. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to reduce interest costs with minimal risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.

3.10 Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet. However, current market conditions are resulting in significant early redemption costs and unless these are significantly reduced, it is unlikely any debt rescheduling will be undertaken in 2015/16.

3.11 Rather than the early redemption of debt the Council may consider transfer of debt between the GF and HRA. Transfer of debt will be undertaken at a zero premium, with the debt specified for transfer based on a "last in, first out" basis and matched to optimise maturity profiles and financing costs.

3.12 The Council will limit and monitor large concentrations of fixed rate debt needing to be replaced. The percentage limits in table 2 are intended to control excessive exposure to volatility in interest rates on refinancing of maturing debt. The first scheduled LOBO call option is included as maturity date within this indicator.

Table 2

Maturity structure of fixed rate borrowing	PWLB Estimated level at 31/03/15 %	Market LOBO 1st call option at 31/03/15 %	Lower Limit for 2015/16 %	Upper Limit for 2015/16 %
under 12 months	3.76	3.98	0	25
12 months and within 24 months	2.23	4.28	0	25
24 months and within 5 years	15.85	4.59	0	50

5 years and within 10 years	23.82	1.83	0	100
10 years and within 20 years	17.74	0.00	0	100
20 years and within 30 years	13.17	0.00	0	100
30 years and within 40 years	1.53	0.00	0	100
40 years and within 50 years	7.22	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	**85.32**	**14.68**	**0**	**100**

3.13 Prudential indicators in relation to borrowing limits and interest rate exposure are shown in Annex A.

4. INVESTMENT STRATEGY

4.1 In accordance with Investment Guidance from DCLG and best practice, the Council's primary objectives in relation to the investment of public funds remains:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.

4.2 When investing funds the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk receiving unsuitably low investment income.

4.3 The Corporate Director of Finance under delegated powers will, on a daily basis determine the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and with reference to the Prudential Indicators and from the list detailed in Annex A. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.

Bail-In Risk

4.4 Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. This will not only apply to failed banks but also banks considered to be underperforming. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit. It was agreed at Cabinet in November 2014, to increase the range of instruments available and reduce risk. In addition to instant access facilities, the Council can make use of the secured instruments of Reverse Repurchase Agreements (REPOs) and it is proposed to expand this to Covered Bonds where available with banks. Secured deposits have the security of underlying assets which can be called upon in the event of default.

4.5 Money Market Funds (MMFs) remain an important vehicle for instant access deposits. Money Market funds reduce the risk of bail-in as the funds are diversified with limits on the exposure to any specific bank. The Council also utilises more than one MMF to diversify exposure. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent; however the Council's funds are ring fenced throughout the process.

4.6 This strategy is also proposing the addition of Pooled Funds, to further reduce risk and to gain access to a diversified pool of investment vehicles, which may otherwise not be possible at an individual council level. Pooled Funds provide wide diversification of investment risks, coupled with the services of a professional fund manager. However, the value of Pooled Funds fluctuate with market prices and so the investment horizon will tend to be longer to ensure that withdrawals are made when the fund is in a positive position. Three Pooled Funds have been added to the Counterparty List in Annex B based on the size and low risk of volatility in the funds.

4.7 Over the last few years the Council has operated a very risk averse strategy only investing in UK denominated banks. However with the introduction of bail-in the Council is reintroducing overseas banks to diversify the portfolio and spread risk. Cabinet agreed in November 2014 to add Swedish bank Svenska Handelsbanken to the Counterparty List. It is proposed four additional banks are included on the Counterparty List to reduce the exposure to risk of individual country deposits. Recommended banks are Oversea Chinese Banking Corporation (OCBC) - Singapore, DBS Bank Ltd - Singapore, National Australia Bank - Australia, Nordea Bank - Sweden. All recommended banks are currently rated AA- which is the same as HSBC and higher than other UK banks. Singapore is not subject to bail-in legislation so will help reduce exposure to bail-in risk. Diversifying in Australia and Sweden will help reduce impact on investments from issues arising out of the eurozone. The recommended banks are all actively taking deposits within the Council's investment limits which will diversify the Council's instant access and fixed term portfolio.

4.8 The Council has added Goldman Sachs International which is a UK bank currently A rated and Coventry Building Society which is currently A- rated to the Counterparty List. To further reduce exposure to bail-in risk and as a result of expanding the available counterparties, the Council has reduced the individual counterparty holding limit from 10% to 5% where deposits are unsecured to reduce to the total held in any one institution and reduce exposure to bail-in risk.

Credit Risk

4.9 Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties. The Council also considers alternative assessments of credit strength and information including corporate intelligence and market sentiment towards counterparties.

4.10 The Council’s in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of significant stress in the markets or heightened counterparty risk, the fallback position is for investments to be placed with central government’s Debt Management Office (DMO) or to purchase UK Treasury Bills. The rates of interest from the DMO are below the equivalent money market rates, but this is an acceptable counterbalance for the guarantee that the Council’s capital is secure.

High Credit Quality

4.11 The removal of government support from banks is expected to change the methodology on credit ratings and in the short term for the majority of banks this will result in downgrades from their current rates. This strategy takes into account the expectation of downgrades by reducing the minimum long term credit ratings in 2015/16 from A- to BBB+. This is to ensure the Council has sufficient counterparty capacity to place funds.

4.12 The Council has set a minimum long-term credit rating criterion of BBB+ for UK counterparties, A+ for Overseas counterparties and AA+ for non-UK sovereigns.

4.13 In order to reduce concentration of investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. Diversification will be achieved by applying individual limits with each counterparty, capped at 7.5% of the total portfolio. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Annex B details counterparty Institutions, investment limits and allowable instruments.

Risk Assessment and Credit Ratings

4.14 Credit ratings are obtained and monitored by the Council'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.

4.15 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 new 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.

Liquidity Risk

4.16 The Council will ensure it has liquid funds available to settle its payment obligations when they fall due and uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. It will utilise instant access facilities including call accounts and Money Market Funds (MMF's) for core working capital balances and structure longer term maturities to correspond to large cash outflows with reference to the Council's Capital programme.

Return on Invested Sums

4.17 As interest rates are forecast to remain low throughout 2015/16, the investment strategy is aiming to lengthen investment periods, where cashflow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns. Longer term investments will typically be through deposits with local authority entities and use of secured deposits where available.

Council's Bank Account

4.18 Following a competitive tender exercise, Lloyds Bank Plc has been appointed with effect from 1 April 2015 as the Council's bank. Lloyds is currently rated above the minimum BBB+ rating. Should the credit ratings fall below BBB+ the Council may continue to deposit surplus cash providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB-.

5. OTHER ITEMS

Policy on Use of Financial Derivatives

5.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). However, the general power of competence in Section 1 of the Localism Act 2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

5.2 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 to which the Council is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

5.3 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.

Policy on Apportioning Interest to the Housing Revenue Account (HRA)

5.4 With the introduction of HRA self financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Interest costs applicable to each loan will be charged directly to the respective revenue account. Interest earned on HRA balances will be calculated and distributed in accordance with DCLG guidelines.

Investment of Money Borrowed in Advance of Need

5.5 The Council may borrow in advance of need, where this is expected to provide the best long term value for money. However, as amounts borrowed will be invested until spent, the Council is aware that it would be exposed to the risk of loss of the borrowed sums and the risk investment and borrowing interest rates may change in the intervening period. These risks would be managed as part of the Councils overall management of its treasury risks. The total amount borrowed would not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Balanced Budget Requirement

5.6 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

Investment Consultants

5.7 The Council has a contract in place with Arlingclose Ltd to provide treasury advisory services, which details the agreed schedule of services. Performance is measured against the schedule to ensure the services being provided are in line with the agreement.

Monitoring and Reporting

5.8 Treasury activity is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates including compliance with Prudential Indicators are provided to Cabinet as part of the budget monitoring process.

5.9 The Treasury Management Strategy Statement is reported to Cabinet in February prior to agreement at full Council before the start of the financial year. A draft is taken to Audit Committee in December for consideration prior to going to Cabinet. Any amendments to the TMSS during the year are reported to Cabinet for approval.

Training

5.10 CIPFA Code of Practice requires all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. The Council adopts a continuous performance and development programme to ensure officers are regularly appraised and any training needs addressed. Treasury Officers also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process. Council Members receive information regarding treasury management as part of their general finance training and access to additional training is provided where required.

Prudential Indicators and Estimates of Capital expenditure

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is a statutory limit for borrowing determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Table 3

Authorised Limit for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	**543**	**502**	**502**	**502**	**495**	**481**
Other Long term Liabilities	2	2	2	2	2	2
Authorised Limit	**545**	**504**	**504**	**504**	**497**	**483**

The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent scenario but without the additional headroom included within the Authorised Limit. This facilitates short term additional borrowing in the event of unforeseen adverse events.

Table 4

Operational Boundary for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	**513**	**472**	**472**	**472**	**465**	**451**
Other Long term Liabilities	2	2	2	2	2	2
Operational Boundary	**515**	**474**	**474**	**474**	**467**	**453**

The Corporate Director of Finance has delegated authority, within the above limits, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such decisions will be based on the outcome of financial option appraisals and best value considerations based on current market and macroeconomic conditions. Cabinet is notified of any use of this delegated authority through monthly budget monitoring reports.

Upper Limits for Interest Rate Exposure

The following Prudential Indicators shows the extent to which the Council is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not unduly exposed to interest rate rises, which could adversely impact its revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

Table 5

Upper Limits for Interest Rate Exposure	31/03/15 Estimate %	2014/15 Approved %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Upper Limit for Fixed Interest Rate Exposure on Debt	85	100	100	100	100	100	100
Upper Limit for	(7)	(75)	(75)	(75)	(75)	(75)	(75)

Fixed Interest Rate Exposure on Investments							
Upper Limit for Variable Interest Rate Exposure on Debt	15	50	50	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(93)	(100)	(100)	(100)	(100)	(100)	(100)

*Investments with duration less than one year are classified as variable.

Upper limits for principal over 364 days

The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. However, under the Council's strategy only investments placed with other local authorities or secured deposits, where risk is minimised, would be placed for over 1 year and there is an upper limit of 2 years.

Table 6

Upper Limit for total principal sums invested over 364 days	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	73	32	30	30	30	30

Estimates of Capital Expenditure and other Prudential Indicators

It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, Housing Rent levels. In an environment of 'low rates for longer' the Council's strategy is currently to defer external borrowing and use internal borrowing where possible, thus saving cost of carry revenue interest and simultaneously reducing counterparty investment risks. Estimates for capital expenditure shown in Table 7 are estimates of likely capital cash outflows.

Table 7

Capital Expenditure	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	120	78	97	84	73	52	43
HRA	23	15	26	49	37	22	14
Total	**143**	**93**	**123**	**133**	**110**	**74**	**57**

Capital expenditure is expected to be financed as follows:

Table 8

Capital Financing	**2014/15 Approved £m**	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Prudential Borrowing	38	19	51	39	26	10	3
Capital Receipts	17	9	20	27	20	8	5
Community Infrastructure Levy	5	0	3	4	5	5	5
Government Grants	52	45	22	25	33	32	30
Other External Contributions	10	8	5	1	0	0	0
Major Repairs Allowance	9	9	9	9	9	9	9
Revenue Contributions	12	3	13	28	17	10	5
Total Capital Financing	**143**	**93**	**123**	**133**	**110**	**74**	**57**

Actual External Debt: This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Table 9

Actual External Debt as at 31/03/2015	**£m**
General Fund Borrowing	82.9
HRA Borrowing	244.1
Other Long term Liabilities	2.2
Total	**329.2**

HRA Indebtedness: Following settlement and the introduction of the self-financing regime, a borrowing cap of £303.3m has been imposed by HM Treasury on HRA indebtedness. This gives the HRA potential headroom borrowing of up to £59.2m to finance future capital.

Incremental Impact of Capital Investment Decisions

As an indicator of affordability, Table 10 shows the notional impact of capital investment decisions on Council Tax and Housing Rent levels and represents the impact on these if the financing of the Capital programme were to be funded from taxes and rents.

Table 10

Incremental Impact of Capital Investment Decisions	**2014/15 Revised**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Increase in Band D Council Tax	£8.40	-£1.10	£8.10	£37.80	£0.00	£0.00
Increase in Average Weekly Housing Rents	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of future revenue budgets required to meet borrowing costs. There is a zero increase in housing rents as a consequence of the fixed financing costs set within the HRA 30 year business plan which commenced in 2012. In terms of council tax, the incremental impact growth reflects the MTFF plan for priority growth projects in the Capital programme. In 2017/18 there is an increase in financing costs due to the expectation of new borrowing in 2016/17 which results in an increase in revenue costs that would result in an increase of £37.80 per Band D Council tax property to fund. From 2018/19 there is sufficient provision within revenue budgets to support the latest Capital programme to 2019/20 without further increasing Council tax.

Table 11

Ratio of Financing Costs to Net Revenue Stream	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	5%	5%	5%	7%	7%	7%
HRA	25%	25%	25%	24%	23%	23%

APPENDIX 9

ANNEX B

Specified Investments & Non Specified Investments

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as decided by the Council and are not deemed capital expenditure investments under statute. Non Specified Investments are those which do not meet the above criteria, for example more than 1 year in duration.

The Council defines “high credit quality” for:

- UK Organisations - The minimum credit rating is set at BBB+ or higher
- Overseas Organisations - The minimum credit rating is set at A+ or higher
- Overseas Countries: The minimum credit rating for domiciles of overseas banks is set at AA+
- Secured Deposits: The minimum credit rating for collateral on secured deposits is set at A-.

Specified Investments identified for use by the Council

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Instant access facilities and fixed term deposits with specified banks & building societies
- Repurchase Agreements and Covered Bonds with specified banks & building societies
- Gilts: (bonds issued by the UK government)
- Treasury Bills (T-Bills)
- Local Authority Bonds
- Money Market Funds
- Pooled Funds

When determining the minimum acceptable credit quality the Council will not only consider the credit rating criteria below but also information on corporate developments of and market sentiment towards investment counterparties as set out in the Credit Risk indicator. For credit rated counterparties, the minimum criteria will be the lowest equivalent long term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned). Long term minimum: BBB+(Fitch); Baa1 (Moody’s); BBB+ (S&P). The Council will aim to have a weighted average credit score of A- for the whole portfolio of investments.

Table 12: Limits for Specified investments

Instrument	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	DMADF, DMO	No limit
Term Deposits	Other UK Local Authorities	£35m per Local Authority / No total limit
Instant Access Accounts / Term Deposits / Certificates of Deposit / Secured Deposits (including Covered Bonds & REPO's)	UK Banks and Building Societies - Lloyds Banking Group (Including Bank of Scotland) - Barclays Bank Plc - Close Brothers - Coventry Building Society - Goldman Sachs International Bank - HSBC Bank Plc - Leeds Building Society - Nationwide Building Society - Santander UK - Standard Chartered Bank	Secured Deposits 10% / £10m Unsecured Deposits 5% / 7.5m (except Leeds Building Society £1m)
Instant Access Accounts / Term Deposits / Certificate of Deposits / Secured Deposits (including Covered Bonds & REPO's)	Overseas Banks Australia - National Australia Bank Singapore - DBS Bank Ltd - Oversea-Chinese Banking Corporation Sweden - Svenska Handelsbanken - Nordea Bank	Secured Deposits 10% / £10m Unsecured Deposits 5% / 7.5m Overseas Bank Total - 50% in aggregate
Gilts	DMO	No limit
Treasury Bills	DMO	No limit
Local Authority Bonds	Other UK Local Authorities	No limit
Money Market Funds	Money Market Funds	7.5%/£5m per fund. Maximum MMF exposure 50%
Pooled Funds	Pooled Funds - Ignis Sterling Short Duration Cash Fund - Insight Sterling Liquidity Plus Fund Aberdeen Sterling Investment Cash Fund	7.5%/£5m per fund. Maximum Pooled Fund exposure 15%

Note: The above list and limits would be amended on notification of any potential risk concerns. Cabinet will approve any additions to the above list of counterparties or investment instruments.

Non Specified Investments (duration more than 1 year)- having considered the rational and risk associated with Non-Specified Investments, the following have been determined for the Council's Use:

Table 13

	Maximum maturity	**Max % of portfolio**
▪ Deposits and Bonds with other UK Local Authorities ▪ Secured Deposits (including Covered Bonds & REPO's) with UK and Foreign banks and UK building societies ▪ Money Market Funds ▪ Pooled Funds ▪ Gilts	2 Years	40 In Aggregate

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty. A maximum exposure limit of 40% has been set for Non Specified investments.

APPENDIX 9

ANNEX C

2015/16 MRP STATEMENT

Where the Council finances its Capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision. This is within the revenue budget to repay the debt in later years. The Local Government Act 2003 requires the Council to have regard to Guidance on Minimum Revenue Provision issued by the Department of Communities and Local Government.

The four options available to establish a prudent amount of MRP are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4%)
- Option 3: Asset Life Method (equal instalment or annuity method)
- Option 4: Depreciation Method

This does not preclude other prudent methods to provide for the repayment of debt principal.

MRP in 2015/16: Option 1 and 2 is used for GF supported borrowing prior to 31 March 2008. For capital expenditure incurred after 31 March 2008, MRP will be charged over the useful life of the assets in equal instalments or for major projects on an annuity basis, starting the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. The HRA will make a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based.

Capital expenditure incurred during 2015/16 is not subject to an MRP charge until 2016/17.