Agenda Item No. 4

Bolsover District Council

Council

20 February 2017

Treasury Management Strategy 2017/18 to 2020/21

Report of Councillor Ann Syrett Leader of the Council

This report is public

Purpose of the Report

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 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 financial loss.

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

1 Report Details

1.1 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 immediate reaction 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.

1.2 This Strategy includes:

- An explanatory foreword
- An introduction
- 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
- Recommendations

The statutory powers relating to the Council's Borrowings

1.3 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.

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

1.5 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

1.6 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.

1.7 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 these commitments.

1.8 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.

1.9 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.

1.10 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.

1.11 Details of the Authorised Borrowing Limits are shown in Section 1.49 of this report.

A review of the Council's outstanding Debt position.

1.12 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 through to the end of 2020/21 are shown in table 1 below: -

Table 1

	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
Capital Financing Requirement 1 April	**95,819**	**100,212**	**104,483**	**109,999**	**107,493**
Prudential Borrowing	5,685	6,076	7,552	89	640
Minimum Revenue Provision (MRP)	(259)	(738)	(764)	(823)	(797)
Minimum Revenue Provision Leasing	(19)	(0)	(0)	0	0
HRA Debt Repayment per HRA Business Plan	(1,014)	(1,067)	(1,272)	(1,772)	(1,772)
Capital Financing Requirement **31 March**	**100,212**	**104,483**	**109,999**	**107,493**	**105,564**

1.13 Prudential Borrowing - Debt Repayment

In order to minimise borrowing costs consideration is given to utilising capital receipts unapplied at the year-end to secure a reduction in the level of borrowing. This is effectively reversed by undertaking a corresponding increase in the level of borrowing to fund new investment in future financial years.

1.14 Prudential Borrowing – 2016/17

Prudential borrowing of an estimated £5.685m is estimated to be required during 2016/17 to finance vehicle replacement (£1.895m), Clowne Leisure Facility and Equipment (£2.483) and HRA new build properties (£1.307m) incurred during the year. Council has previously determined that these schemes shall be financed from prudential borrowing.

1.15 Prudential Borrowing 2017/18

In 2017/18 prudential borrowing of £6.076m will be required in order to finance vehicle replacements (£0.184) and for HRA new build properties (£5.892m). In all cases prudential borrowing is both the more cost effective option and can be funded from within existing revenue budgets.

1.16 Prudential Borrowing – future years

In 2018/19 (£7.552m), 2019/20 (£0.089m) and 2020/21 (£0.640m) the forecast prudential borrowing is limited at this stage to finance HRA new build properties (B@home), the HRA regeneration scheme at New Bolsover and vehicle replacement.

1.17 Leasing

The Council has no plans to undertake any leasing that is required to be treated as finance leasing over the period of the MTFP (i.e. treated as outstanding debt on the balance sheet). This reflects the decision to switch from finance leases to prudential borrowing to finance vehicle purchases. It should be noted that the impact on the CFR would be broadly the same irrespective of whether borrowing or finance leasing is used to finance these acquisitions.

1.18 Lease Repayments

The Council still holds a number of lease agreements for operational vehicles and equipment. This sum represents the principal repayments that will be made during 2016/17 and future years and equates to the MRP charge that is made to the General Fund. On the basis of current plans these leases will be extinguished during the 2017/18 financial year.

1.19 Minimum Revenue Provision (MRP)

The MRP is the amount of principal repayment on the debt outstanding 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 detailed in section 1.30

1.20 HRA Debt Repayment

The Council completed the HRA self financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Within the HRA business plan and HRA budgets there is a sum set aside to repay the outstanding debt over a 30 year period with debt repayment rising to £1.8m over the next four financial years. This repayment has been reduced from the previous level of £3.5m to just over £1.0m in 2016/17 due to a range of financial pressures including the 1% rent reduction imposed by Central Government. The debt repayments will reduce the outstanding debt of the HRA and the amount of interest charged. It also has the impact of increasing the headroom available between the HRA outstanding debt and the debt ceiling (£112.350m) which allows opportunities for financing future HRA capital expenditure from prudential borrowing. Such schemes are of course subject to the requirement that they are affordable, prudent and sustainable.

1.21 Summary of Capital Financing Strategy

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

While the Housing Revenue Account has been required to reduce the level of forecast debt repayment over the period of the MTFP it is forecast to be in a position to repay the self financing settlement 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

1.22 The Capital Financing Requirement as set out in section 1.12 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 an authority 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.

1.23 Table 2 below outlines the current and planned debt financing arrangements over the term of the MTFP

Table 2

	2016/17 £000's	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
PWLB	103,100	102,100	102,100	102,100	100,100
Leasing Arrangements	19	0	0	0	0
Internal Borrowing	(2,907)	2,383	7,899	5,393	5,464
Temporary Borrowing	0	0	0	0	0
Capital Financing Requirement	**100,212**	**104,483**	**109,999**	**107,493**	**105,564**

1.24 PWLB Loans

The level of external Public Works Loan Board (PWLB) loans will reduce by £1m in 2017/18 and £2m in 2020/21 as short term loans mature.

Table 3 below outlines the PWLB debt maturity profile of existing PWLB loans as 31 March 2018.

Table 3

PWLB BORROWING **Term**	**Maturity Profile 31 March 2018** **£m**
12 Months (2018/19)	0.0
1 - 2 years	3.0
2 - 5 years	9.7
5 - 10 years	23.4
10 years and above	66.0
Total PWLB Debt	**102.1**

1.25 Leasing Arrangements

The current leasing arrangements relate to vehicles and equipment utilised in the provision of services. The move away from leasing to prudential borrowing as a means of financing the vehicle purchase is reflected in the reduction each year of outstanding leasing balance as the lease is repaid and not replaced. All current leasing arrangements will come to an end during 2017/18. 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.

1.26 Internal Borrowing

The balance between the CFR and the external borrowing (PWLB and Leasing) is made up from the utilisation of internal cash balances held by the Council. This effectively avoids the Council having to borrow money from external sources.

The forecast increase in the CFR means that the Council will have a growing requirement to use internal balances to finance capital expenditure over the next few years. This means that these balances will not be available for investment purposes. Current investment interest rates continue to remain very low in the money markets and finding suitable counterparties that match our strict lending criteria remains difficult at the present time. The forecast cash flow position indicates that balances of up to £20m may be available for investment during 2017/18 with the forecast level of investment cash reducing after this point. Again this level will depend on the future capital investment plans outlined at an earlier stage of this report. The investment strategy is examined in detail later in this report.

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 each of these main accounts. The Council will apply the short-term interest rate (London Interbank Three Month Bid (LIBID)) to internal borrowing balances.

1.28 Temporary Borrowing

It may be necessary at times to undertake some very short term temporary borrowing during the year to ensure the Council has sufficient liquidity to meet day to day cash flow requirements. This is most likely to arise as available cash flow balances diminish during February and March i.e. a lower level of Council Tax receipts are received in this period.

1.29 Summary of the Proposed Borrowing Strategy 2017/2018

- Leasing debt will continue to be repaid in accordance with existing contractual arrangements.
- 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 where possible, however, the continued availability of cash balances for investment will require careful management (see Investment Strategy later in report).
- Officers will monitor the position with regard to ensuring that external borrowing remains within the CFR limit during 2017/18.
- The debt financing arrangements as outlined in Table 2 are approved.

Minimum Revenue Provision Policy

1.30 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 against the revenue accounts of the Council. Details of the proposed MRP levels for 2017/18 are shown below:

For capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure the Minimum Revenue Provision policy will be:

Historic Debt - Minimum Revenue Provision will follow the existing practice outlined in former CLG Regulations (Option 1), capital financing requirement minus “adjustment A” multiplied by 4%.

From 1 April 2008 for all capital expenditure funded by borrowing the Minimum Revenue Provision policy will be:

Asset Life Method - Minimum Revenue Provision will be based on the estimated life of the assets.

In the case of finance leases the Minimum Revenue Provision would be regarded as met by a charge equal to the element of the charge that goes to write down the balance sheet liability.

1.31 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.

1.32 Leased Assets

The current level of anticipated MRP in respect of leased assets along with the year end liability is set out in table 4 below:

Table 4

	2016/17 £000's	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
Finance Leases					
Leasing Liability 1 April	19	0	0	0	0
Less MRP	(19)	0	0	0	0
Add New Finance Leases	0	0	0	0	0
Leasing Liability 31 March	0	0	0	0	0

1.33 Summary of MRP policy arrangements for 2016/17 and 2017/18

Table 5

	MRP 2016/17 £'000	MRP 2017/18 £'000
General Fund		
Historic Debt	174	167
Asset Life	85	571
Leased Assets	19	0
Total – General Fund	**278**	**738**
Housing Revenue Account		
Debt Repayment	1,014	1,067
Total – HRA	**1,014**	**1,016**

Investments

1.34 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 section of the Treasury Management Strategy informs Members of the main principles governing the Council's investment criteria.

1.35 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.

1.36 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.

1.37 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. They have in place a comprehensive assessment and monitoring criteria process covering the counterparties used by the Council to place investments. The process involves the Treasury Management advisors providing a weekly list detailing 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 they use to monitor early warning signals concerning individual counterparties. The weekly list is also supplemented with daily alerts, if required, on changes to the ratings on individual counterparties. The Council will continue to use the weekly counterparty listing or similar evidence to assess the status of individual counterparties for investment purposes.

1.38 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).

1.39 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. Individual local authorities (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 rating of AA or equivalent 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+.

Council will note that in addition to the above list of approved counterparties that in response to a previous report to Council at its meeting of January 2017, the Council agreed to provide investment funds for the Dragonfly Joint Venture Company. That report detailed the risks and associated mitigation arising from this investment, with the Council agreeing to provide a maximum level of funding to the company of £3.020m. The agreement to fund this loan is excluded from the overall level of investment allowed in non specified investments as set out below.

1.40 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.

1.41 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. Property Funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using.

8 Any individual Local Authority, including Parish Councils. For deposits with a maturity of greater than one year.

1.42 Specified Investments Strategy

Specified Investments (less than 12 months) can be made with the counterparties covered by the list in Section 1.39. The Council however is also advised to overlay the following 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)
- AA rated money market funds
- AA rated enhanced money market funds
- Lloyds Bank as the Councils own banker. If the bank falls below the above criteria (1.39) then balances will be kept to a minimum.
- 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 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 AA rated money market fund / enhanced money market fund.
- Lloyds Bank current account – up to £5m overnight as long as the rating does not fall below the criteria in 1.39.
- All lending subject to "on the day" credit checks against the weekly list of counterparty ratings.
- Parish Councils are charged interest equivalent to the Bank Base Rate (currently 0.25%).

1.43 Non Specified Investments Strategy

Given the level of funds at its disposal it is appropriate that the Council gives consideration to the use of non specified investments (investments for a period of over 12 months) as these will generally secure better rates of return without significantly compromising the security of our funds. These instruments will, however, only be used where the Council's liquidity requirements are safeguarded.

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 1.41 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 the 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 more difficult to limit our level risk exposure.

Interest rate projections

1.44 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%
1920/21	0.25%

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

The Prudential Indicators

1.45 In developing the Medium Term Financial Plan the Council has had regard to the requirements of the Prudential Code.

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

1.47 Ratio of financing costs to the net revenue stream

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

Table 6

	2017/18 Estimated	2018/19 Estimated	2019/20 Estimated	2021/21 Estimated
GF	7.68%	6.82%	7.57%	7.83%
HRA	54.66%	50.22%	43.97%	47.03%

The estimates of financing costs include current commitments and borrowing required by the proposed Capital Programme.

The General Fund ratio reflects that the borrowing costs in relation to Council Tax income with the increase in the ratio reflecting the recommendation that prudential borrowing be used to fund investment over the period of then current MTFP.

The HRA ratio is high as a result of the increased interest charges following the transfer of external debt to the Council as a result of the HRA reforms. 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 is financially sustainable taking into account the proposed increase in the level of borrowing

1.48 <u>Impact on Council Tax and Rents from prudential borrowing.</u>

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 is required to cover these costs.

In relation to the General Fund the capital programme has prudential borrowing planned for vehicle replacement and equipment. For the HRA it relates to New Build Properties and the New Bolsover project.

It should be noted that the MRP and interest charges in relation to vehicle replacement merely replaces the leasing charges previously incurred when vehicles were leased.

Table 7

	2016/17	2017/18	2018/19	2019/20	2020/21
Impact on Council Tax					
Borrowing Amount	£4.379m	£0.184m	£0.451m	£0.089m	£0.436
Planned Prudential Borrowing	£33.00	£2.06	£5.02	£1.00	£4.88
Impact on Weekly Rents					
Borrowing Amount	£1.307m	£5.892m	£7.102m	£0m	£0.204
Planned Prudential Borrowing	£0.34	£1.51	£1.82	£0.00	£0.05

It should be noted that where approval for Prudential Borrowing is sought that Officers will develop a Business Case demonstrating that for all proposed borrowing the requirements of the Prudential Code are met in respect of prudence, sustainability and affordability.

1.49 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. The limit is set as £10m above the forecast CFR levels.

Table 8

	2016/17 Revised £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Authorised Borrowing Limit	110,212	114,483	119,999	117,493	115,564

The linking of the Authorised Borrowing Limit to the movement in the Capital Financing Requirement means that the limits remain appropriate to the Council in each year of the MTFP.

1.50 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 Operational Boundary is set at £5m below the authorised limit.

Table 9

	2016/17 Revised £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Operational Boundary	105,212	109,483	114,999	112,493	110,564

1.51. **<u>Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services</u>**

1.52 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.

1.53 <u>Interest Rate Exposures</u>

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.

1.54 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.

The amount of interest payable on variable rate borrowing is very low in comparison to the interest receivable on variable rate investments. This therefore does not create a meaningful indicator for the Council to monitor. The Council does not anticipate the need for any new borrowing that would affect this position in the short term. However, this position will be reviewed on a regular basis to ensure that there is no material change to the current assumptions.

1.55 With respect to Bolsover District Council it is recommended that the Council continues to adhere to the limits set out below:

Table 10

	Lower Limit **Fixed Interest Rate**	**Upper Limit** **Fixed Interest Rate**
2016/2017	20%	100%
2017/2018	20%	100%
2018/2019	20%	100%
2019/2020	20%	100%
2020/2021	20%	100%

1.56 Maturity Structure of Borrowing

Amount of projected borrowing that is fixed rate maturing in each period

This indicator is designed as 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 11

	Lower Limit	Upper Limit	Forecast Position at 31 March 2018
Under 12 months	0 %	20 %	0.0%
12 months and within 24 months	0 %	40 %	2.94%
24 months and within 5 years	0 %	60 %	9.5%
5 years and within 10 years	0 %	80 %	22.92%
10 years and above	0 %	100 %	64.64%

1.57 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.

1.58 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.

1.59 In line with the current policies in respect of non specified investments it is proposed that this prudential indicator will be set at £10m for 2016/17 revised and 2017/18 based on increased cash balances being available for investment. The financial years 2018/19, 2019/20 and 2020/21 are set at a lower levels as the forecast cash balances position is harder to predict at this stage.

Table 12

Year	Limit of investments maturing beyond the year end
2016/2017	£10 million
2017/2018	£10 million
2018/2019	£10 million
2019/2020	£10 million
2021/2020	£10 million

Treasury Management Operations

1.60 Treasury Management Advisors

As mentioned earlier the Council uses external treasury management advisors as its treasury management consultants. 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;

1.61 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. This service is subject to regular review. It should be noted that the Council's current contract with Arlingclose.

1.62 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 some of these requirements by:

a. Members training and development needs are addressed by a Member Development Programme.

b. Officers attend training seminars held by external treasury management advisors and CIPFA.

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 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 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 equalities issues arising directly out of 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

These are covered 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

- None arising directly from this report.

6 Recommendations

6.1 Approve the Capital Financing Requirement as set out within Table 1 and detailed in section 1 of this report. In particular

- Prudential borrowing of up to £5.685m in 2016/17, £6.076m in 2017/18, £7.552m in 2018/19, £0.089m in 2019/20 and £0.640 2020/21 to finance capital expenditure

6.2 Approve the Borrowing Strategy as summarised in section 1.29 of this report and that Members note that no new long term external borrowing is planned over the term of the MTFP (2016/17 to 2020/21).

6.3 Approve the Minimum Revenue Provision policy for 2017/18 as set out in section 1.33.

6.4 Approve the Investment Strategy as set out in sections 1.34 – 1.43

6.5 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 1.39 and 1.43 before any investment is undertaken.

6.6 Approve the Prudential Indicators for 2017/18 detailed in this report and in particular:

	2017/18
Authorised Borrowing Limit	£114,483,000
Operational Boundary	£109,483,000
Capital Financing Requirement	£104,483,000

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one 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)	-
District Wards Affected	
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 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)	
Report Author	**Contact Number**
Executive Director - Operations Principal Accountant	2431 2459