

Appendix 2

Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by this Council on 26 March 2015 (Audit Committee 13 February 2015 recommendation to Full Council).

Minor updates to reflect staffing changes have been made to the TMSS. Audit Committee received an interim update on 25th September 2015 where a change to Policy was agreed as follows:

“The Treasury Policy is amended to reduce the Sovereign rating for non-UK investments to AA- with immediate effect in accordance with our Treasury Advisors update from 9 June 2015, providing individual counterparts are also AA-“

The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2015/16	Original £m	Revised Prudential Indicator £m
Authorised Limit	£9.933m	£9.933m
Operational Boundary	£8.933m	£8.933m*
Capital Financing Requirement	-	-

The difference between the Authorised limit and the operational boundary is the overdraft. From February 2016 the Authorised Limit will be £9.183m to reflect the overdraft reducing from £1.000m to £0.250m

The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2015/16 Original Estimate £m	2015/16 Revised Estimate £m	Current Spend @ 31.10.15 £m	2015/16 Forecast Out-turn £m
Commercialisation	7.758	7.250	1.281	5.646
Strategy and Governance	1.068	1.069	0.181	0.993
Place	3.803	3.986	0.943	2.373
Total	12.629	12.305	2.405	9.012

The revised estimate includes any approved changes since the 15-16 budget was set. The forecast position and current year estimate reflect the latest figures which are being put forward for approval as part of the budget setting process.

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2015/16 Original Estimate £m	Current Spend @ 31.10.15 £m	2015/16 Revised Estimate £m
Supported	12.629	2.405	12.305
Unsupported	-	-	-
Total spend	12.629	2.405	12.305
Financed by:			
Capital receipts			-
Capital grants	2.055		1.740
Capital reserves	10.272		10.117
Revenue	0.302		0.448
Total financing	12.629		12.305
Borrowing need	Nil		Nil

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – External Debt / the Operational Boundary

	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	-	-	-
Net movement in CFR	-	-	-
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	-	-	-
Other long term liabilities*	£8.933m	£8.933m	£8.933m
Total debt 31 March	£8.933m	£8.933m	£8.933m

* On balance sheet PFI scheme.

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Plus other long term liabilities*	£8.933m	£8.933m	£8.933m
Gross borrowing	-	-	-
CFR* (year end position)	-	-	-

* The leisure PFI scheme is on balance sheet an increases the CFR. This does not affect the Council's debt position (which remains nil) as the debt facility embedded in the PFI will be repaid over the life of the scheme.

The Executive Director Commercialisation & S151 reports that no difficulties are envisaged for the current year in complying with this prudential indicator and future years pressures will be managed through the budget process.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2015/16 Original Indicator	Current Position	2015/16 Revised Indicator
Borrowing (Bank overdraft)	£1.000m	-	£1.000m
Other long term liabilities*	£8.933m	£8.933m	£8.933m
Total	£9.933m	£9.933m	£9.933m

* On balance sheet PFI scheme.

Investment Portfolio 2015/16

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Appendix 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Given this risk environment, investment returns are likely to remain low.

The Council held £40.340m of investments as at 31 October 2015 (£38.948m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.536% against a benchmark (3 month LIBID – London Inter-bank Bid rate) of 0.452 %.

The Executive Director Commercialisation & S151 confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

The Council's budgeted investment return for 2015/16 is £0.220m. It is anticipated this budget will be revised upwards at the end of Q3 2015/16 to reflect both improved investment returns and also the interest receivable from loans to Breckland Bridge Ltd.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. The Council continues to use Capita's colour coding methodology to select suitable counterparties.

Borrowing

The Council does not currently have any external borrowing, details on the PFI and the CFR are detailed earlier in this appendix.