

Appendix 2

Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by this Council on 25 February 2016 (Audit Committee 19 February 2016 recommendation to Full Council).

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

Prudential Indicator 2016/17	Original £m	Revised Prudential Indicator £m
Authorised Limit	£8.726m	£8.726m
Operational Boundary	£8.976m	£8.976m
Capital Financing Requirement	-	-

The difference between the Authorised limit and the operational boundary is the overdraft which is £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	2016/17 Original Estimate £m	2016/17 Revised Estimate £m	Current Spend @ 31.10.16 £m	2016/17 Forecast Out-turn £m
Commercialisation	9.060	9.076	4.465	5.904
Strategy and Governance	1.635	1.635	0.028	0.685
Place	3.442	3.869	1.066	1.826
Capital Loans	1.371	1.371	0.918	1.371
Total	15.508	15.951	6.477	9.786

The revised estimate includes any approved changes since the 16-17 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.

Capital Expenditure	2016/17 Original Estimate £m	Current Spend @ 31.10.16 £m	2016/17 Revised Estimate £m
Supported	15.508	6.477	9.786
Unsupported	-	-	-
Total spend	15.508	6.477	9.786
Financed by:			
Revenue	0.986		0.067
Capital grants	1.913		1.308
Capital reserves	11.238		7.040
Capital Loans repaid	1.371		1.371
Total financing	15.508		9.786
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

	2016/17 Original Estimate £m	Current Position £m	2016/17 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*	£8.976m	£8.976m	£8.976m
Total debt 31 March	£8.976m	£8.976m	£8.976m

* 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 2016/17 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.

	2016/17 Original Estimate £m	Current Position £m	2016/17 Revised Estimate £m
Plus other long term liabilities*	£8.976m	£8.976m	£8.976m
Gross borrowing	-	-	-
CFR* (year end position)	-	-	-

* The leisure PFI scheme is on balance sheet and 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	2016/17 Original Indicator	Current Position	2016/17 Revised Indicator
Borrowing (Bank overdraft)	£0.250m	-	£0.250m
Other long term liabilities*	£8.726m	£8.726m	£8.726m
Total	£8.976m	£8.976m	£8.976m

* On balance sheet PFI scheme.

Investment Portfolio 2016/17

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. It remains a very difficult investment market in terms of earning interest, with rates being very low with the bank rate at 0.25%. Given the risk environment, investment returns are likely to remain low.

The Council held £30.789m of investments as at 31 October 2016 (£34.309m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.792% (including capital loans) against a benchmark (3 month LIBID – London Inter-bank Bid rate) of 0.383 %. Appendix 3 shows the current deposits held by the Council.

The Executive Director Commercialisation & S151 confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

The Council's budgeted investment return for 2016/17 is forecast to be £266,847 which is slightly ahead of the budgeted sum of £258,010. Although investment returns are below budget, extensions to the Breckland Bridge Capital Loans have compensated for this.

Investment Counterparty criteria

The Council continues to use Capita's colour coding methodology to select suitable counterparties and holds instant access cash in AAA rated Constant Net Asset Value (CNAV) Money Market Funds (MMFs) in line with its policy. All MMF's that have European funds have adopted an approach whereby technically they are still a CNAV fund but in reality in a negative interest rate environment the Council could get back less than the full value of its shares. Capita have advised (Nov 16) that they still support the use of these MMF's because MMF's would reduce fees to ensure they did not enter a negative interest rate environment and if we did enter such an environment, all investments would be at risk. In addition, we would be warned that the MMF was entering a negative interest rate environment. Capita consider a strategy where a counterparty is solely selected on the basis of a true CNAV to be flawed.

However, because we have been specifically notified of this risk by the MMF's, we have been exploring new instant access accounts which will offer reduced interest but aim to reduce the risk of losing principle. We have opened a Government deposit facility (DMADF) which earns 0.15% and we have re-opened the Handelsbanken instant access account also at 0.15%. This is a non-UK counterparty and the balance will reflect any other non-UK investments out at any given time. A further instant access account is required so until such time as we open a further account we will still have some funds in the CNAV MMF's (which does still remain within policy but it is desirable to zero these balances as soon as possible)

Borrowing

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