ANNEX 2

COUNCIL MEETING – 25TH FEBRUARY, 2016

AGENDA ITEM NO. 6 (2)

ANNUAL TREASURY MANAGEMENT STRATEGY 2016/17 AND PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

A report from the meeting of the Cabinet held on the 2nd February, 2016.

1. INTRODUCTION

1.1 The Cabinet considered Report No. FIN1602 on the Council's Treasury Management strategy for the year 2016/17, Prudential Indicators, and policy on Minimum Revenue Provision as set out in the attached Appendices.

1.2 The strategy and indicators have been prepared in accordance with CIPFA's Code of Practice on Treasury Management, CLG guidance on investments and the prudential system of capital accounting (the Prudential Code). Taken together, they provide an approved framework within which officers undertake day-to-day capital and treasury activities of the Council.

2. BACKGROUND

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans i.e. the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations.

2.3 The purpose of Prudential Indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.4 The strategy allows the use of a wide range of financial institutions and investments, after due consideration of security and liquidity, to enable the generation of improved returns. The strategy provides the flexibility to pursue a range of diverse investment avenues within appropriate investment boundaries. This approach fits with the latest advice from Arlingclose, our treasury advisors.

3. RECOMMENDATIONS

3.1 Council is recommended to approve:

(i) the Treasury Management Strategy, Annual Borrowing Strategy and Annual Investment Strategy attached at Appendix A;
(ii) the Prudential Indicators set out in Appendix B; and
(iii) the Minimum Revenue Provision (MRP) Statement at Appendix C

P J MOYLE
LEADER OF THE COUNCIL

APPENDIX A

TREASURY MANAGEMENT STRATEGY 2016/17

1. INTRODUCTION

1.1 This strategy has been prepared in accordance with CIPFA's Treasury Management in the Public Sector: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start o each financial year.

1.2 In addition, DCLG issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

1.3 The Council approves an annual strategy to be prepared in advance of the year, a mid-year review and an annual report after its close. The Licensing and General Purposes Committee is the nominated committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.

1.4 The Council has invested sums of money and is therefore exposed to financial risks including loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.5 This strategy covers:

- External context
- Current investment portfolio position
- Annual Borrowing Strategy
- Annual Investment Strategy
- Specified & Non-specified Investments
- Performance Indicators

2. EXTERNAL CONTEXT

2.1 **Economic background:** Domestic demand has grown robustly**,** supported by real income growth and a gradual decline in private sector savings. Low oil and commodity prices have contributed to CPI inflation falling to 0.1% in October and GDP growth 2.3% in Q3 2015. Although speeches at the Bank of England signalled that there may be increases in future interest rates, policy rates have been held for 81 consecutive months. Looking forward, uncertainty of the forthcoming EU referendum could put downward pressure on UK GDP and interest rates. In addition, China's growth has slowed, hence reducing global demand and contributing to emerging market weakness. The US Federal reserve did raised its policy rates 0.25% in December 2015, whilst the European Central Bank embarked on Quantative Easing in 2015.

2.2 **Credit outlook**: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

2.3 **Interest rate forecast**: Arlingclose project the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

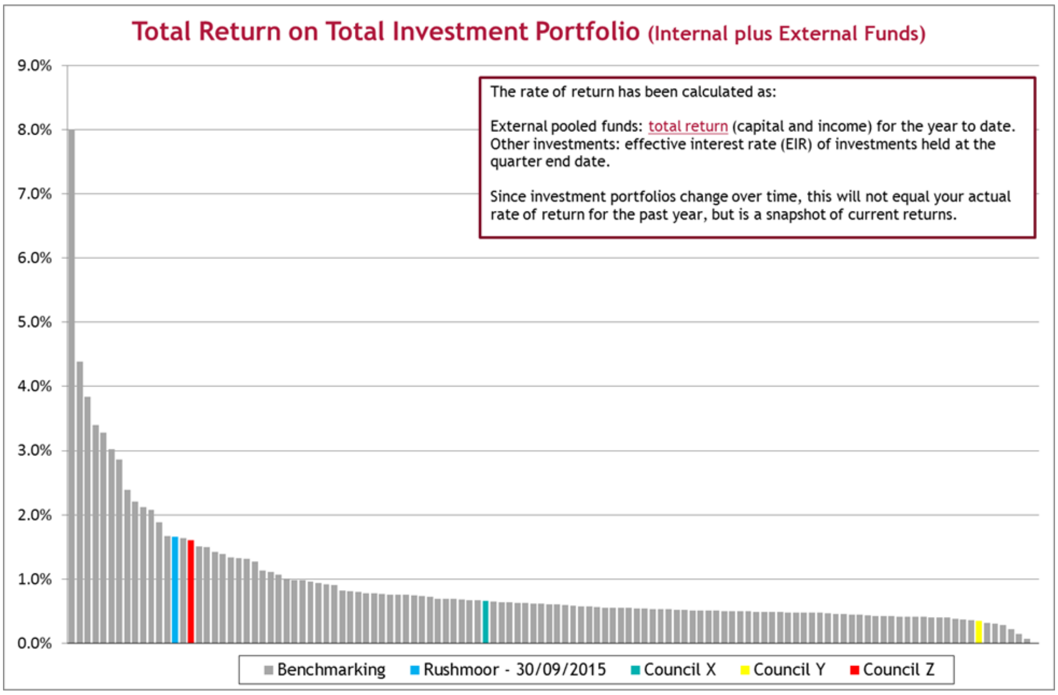
3. CURRENT BORROWING & INVESTMENT PORTFOLIO POSITION

3.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles. The latest advice from Arlingclose to counteract the increasing risk of bank bail-ins and to generate enhanced returns as long-term interest rate forecasts remain low is to aim to invest longer term with counterparties other than banks and to invest across a diverse investment portfolio.

3.2 During 2015/16 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's investment portfolio:

- £20m in pooled funds (providing a balance across a range of 5 different types of fund)
- £2m with Lancashire County Council
- £2m with Dumfries and Galloway Council
- £6.5 with various Banks and Building Societies

3.3 The graph - Total Return on Total Investment Portfolio has been produced by Arlingclose and demonstrates that during the six months to 30/9/2015 the Council's returns on total investment portfolio at 1.66% were amongst the highest when benchmarked against their other local authority clients.



Note: Highlighted Councils X, Y and Z, have similar sized investment portfolios.

Table 1: – Existing Investment & Debt Portfolio Position

	Actual Portfolio £m	Average Rate %
Total External Borrowing	4.7	-
Total Gross External Debt	4.7	
Investments:		
Managed in-house-		
Short-term investments	12.0	0.6
Long Term Investments	10.6	1.0
Money Market Funds	9.1	0.4
Call accounts	1.0	0.4
Managed externally-		
Pooled Funds *:		
Payden & Rygel's Sterling Reserve	5.0	0.99
CCLA LA's Mutual Investment Trust	5.0	5.23
Aberdeen Absolute Fund	3.0	2.67
UBS Multi Asset Fund	5.0	3.80
Threadneedle Investments	2.0	4.29
Total Investments	52.7	

Table 1 Illustrates the Council's investment and debt portfolio position as at 31st December 2015.

4. ANNUAL BORROWING STRATEGY 2016/17

4.1 The Council made use of two funds from the Local Enterprise Partnership by borrowing £3 million to progress the Aldershot regeneration schemes in 2015/16, and £1.7million to progress the acquisition of suitable alternative natural green space. Potential future borrowing requirements will be explored as part of the financial appraisal process of any capital investment schemes identified as an outcome of the ongoing 8-Point Plan work and Strategic Projects (e.g. Regeneration Schemes). The Council may borrow to finance investment schemes providing this does not exceed the authorised limit for borrowing of £15 million during 2016/17.

4.2 **Objectives**: The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Sources: The approved sources of long-term and short-term borrowing are detailed within TMP 4 (Approved Instruments, Methods and Techniques), and are summarised below:

- Public Works Loan Board (PWLB)
- Money market loans (long term & temporary)
- any bank or building society authorised to operate in the UK
- UK Local Authorities
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
- Lottery monies

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative

5. ANNUAL INVESTMENT STRATEGY 2016/17

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £48 million and £52 million however, levels are expected to reduced in the forthcoming year due to the impact of business rates retention scheme on cash flows and as capital expenditure takes place.

5.2 **Objectives**: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy**: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016/17, whilst retaining short term accessibility.

5.4 Table 2 outlines the approved investment counterparties with whom the Council may invest its surplus funds, subject to the cash, investment and time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 2: Approved Investment Counterparties

Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit †**
Banks Unsecured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£20m in total	5 Years*
	AA+	£2m		5 Years*
	AA	£2m		4 years*
	AA-	£2m		3 years*
	A+	£2m		2 years
	A	£2m		13 months
	A-	£2m		6 months
	BBB+	£1m		100 days
Banks Secured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	20 years
	AA+	£4m		10 years
	AA	£4m		5 years
	AA-	£4m		4 years
	A+	£4m		3 years
	A	£4m		2 years
	A-	£4m		13 months
	BBB+	£2m		6 months
	BBB or BBB-	£2m		100 days

Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit †**
Government whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	50 Years
	AA+	£4m		25 Years
	AA	£4m		15 Years
	AA-	£4m		10 Years
	A+	£2m		5 Years
	A	£2m		5 Years
	A-	£2m		5 Years
	BBB+	£1m		2 Years
	None	£4m		25 Years
Corporates whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£6m in total	20 Years
	AA+	£2m		10 Years
	AA	£2m		10 Years
	AA-	£2m		10 Years
	A+	£2m		5 Years
	A	£2m		2 Years
	A-	£1m		13 months
	BBB+	£1m		6 months
	none	£0.5m		5 Years
Registered Providers whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	£10m in total	20 Years
	AA+	£4m		10 Years
	AA	£4m		10 Years
	AA-	£4m		10 Years
	A+	£4m		5 Years
	A	£4m		5 Years
	A-	£4m		5 Years
	BBB+	£4m		5 Years
	None	£4m		5 Years
The Council's current account bank if it fails to meet the above criteria		£2m	£2m	next day
UK Building Societies without credit rating		£1m	£4m	1 Year
Money market funds		£5m	£20m in total	n/a
Collective Investment Schemes (pooled funds)		£5m per fund	£20m in total	These funds do not have a defined maturity date

* *no longer than 2 years in fixed-term deposits and other illiquid instruments*

5.5 Investments may be made with banks or any public or private sector organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

5.6 Further information as to why certain counterparties have been included in table 2 is set out below:

- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

  Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Council's current account bank, which is categorised separately in table 2.

- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

  Investments in unrated small businesses may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

- **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. We will continue to use funds that offer same-day liquidity as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

- **Other Pooled Funds**: The Council will continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.7 **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. 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 with that entity
- we will recall or sell any existing investments with that entity where we can do so at no cost
- due consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.8 **Other Information on the Security of Investments**: The Council will also take account of other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The Council will not proceed with an investment with an organisation if it has doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities.

This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6. SPECIFIED AND NON-SPECIFIED INVESTMENTS

6.1 **Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government
    - a UK local authority, parish council or community council
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

6.2 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classified as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure e.g. company shares.

Non-specified investments at the Council are limited to longer term investments e.g. pooled funds, or other long-term (12 months +) investments with other LAs, banks or building societies, and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£30m
Total non-specified investments	£40m

6.3 **Approved Instruments**: The Council may lend or invest money using any of the instruments detailed in Treasury Management Practice (TMP) 4, held within Financial Services. The approved instruments are summarised as follows:

- interest-bearing bank accounts
- fixed term deposits and loans

- callable deposits and loans where the Council may demand repayment at any time (with or without notice)
- callable deposits and loans where the borrower may repay before maturity
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments
- shares in money market funds and other pooled funds
- reverse repurchase agreements (repos)

Investments may be either made at a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

6.4 **Liquidity management**: The Council produces cash flow forecasts to determine the maximum period for which funds may be committed. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

7. TREASURY MANAGEMENT INDICATORS

7.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance, which have been set out below at paragraphs 7.3 to 7.5. The Council has also adopted a voluntary measure for credit risk as set out in paragraph 7.2

7.2 **Credit Risk (Credit Score Analysis)**: Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

The advice from Arlingclose is to aim for an average A-, or higher, average credit rating, with an average score of 7 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

	Target
Portfolio average credit rating	A-
Portfolio average credit score	7.0

7.3 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	-£27m	-£23m	-£18m
Upper limit on variable interest rate exposure	-£19m	-£16m	-£13m

It is expected that for most Councils the interest rate exposure calculation would result in a positive figure. As the Council has more funds available to invest than it intends to borrow, the calculation has resulted in a negative figure.

7.4 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.5 **Principal Sums Invested for Periods Longer than 364 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end at any one time	£40m	£40m	£40m

8. OTHER ITEMS

8.1 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

8.2 **Policy on Use of Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk, and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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 that the Council is exposed to. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment Training**: The needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, discussed as part of the staff appraisal process and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment Advisers:** The Council appointed Arlingclose Limited as treasury management advisers in April 2013, and receives specific advice on investment, debt and capital finance issues. The quality of this service will be reviewed on an ongoing basis as part of the process of monitoring the Council's investment portfolio. Arlingclose have been successful in securing the Council's Treasury Advisory contract for a further 3 years from April 2016, following a procurement exercise.

8.5 **Investment of Money Borrowed in Advance of Need**: The Council may, from time-to-time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £15 million during 2016/17. The maximum period between borrowing and expenditure is expected to be two years.

8.6 **Financial Implications:** The budget for investment income in 2016/17 is £850k, based on an average investment portfolio of £35 million at interest rates ranging from 0.4% liquid MMF and other short-term investments to 5.25% long-term pooled property investment fund. Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process. The investment income will reduce depending on the pace and size of capital expenditure that arises from the 8-Point Plan work and strategic projects as mentioned in section 4.1.

8.7 **Other Options Considered:** The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes the above strategy represents an appropriate balance between risk management and cost effectiveness. An alternative strategy might be to invest in a narrower range of counterparties and/or for shorter periods. The likely impact of this alternative would be lower interest income alongside a reduced risk of loss from credit-related defaults. Investing in a wider range of counterparties and/or for longer periods would result in the opposite impact i.e. interest income would be higher but there would be a greater risk of loss.

APPENDIX B

PRUDENTIAL INDICATORS

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1. **Estimates of Capital Expenditure:** The Council's planned core capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
General Fund	9.340	8.802	5.317	1.150
TOTAL EXPENDITURE	**9.340**	**8.802**	**5.317**	**1.150**
Capital Receipts	5.780	5.477	3.470	(0.037)
Capital Grants & Contributions	2.401	2.575	1.097	0.437
Revenue	1.159	0.750	0.750	0.750
Borrowing	0	0	0	0
TOTAL FINANCING	**9.340**	**8.802**	**5.317**	**1.150**

The Council's core capital expenditure programme has been evaluated and comprises of affordable, prudent and sustainable items. In addition to this, the Council can foresee the need to progress expenditure on Invest to Save schemes (as part of the 8-Point Plan) and strategic projects such as regeneration schemes. These schemes will be evaluated and presented to Cabinet individually, before inclusion on the Capital programme.

Indicative values for these future schemes are demonstrated below. Whilst additional grants and capital receipts may fund some of the expenditure, borrowings will be required.

Indicative Capital Expenditure	***2015/16 Revised £m***	***2016/17 Estimate £m***	***2017/18 Estimate £m***	***2018/19 Estimate £m***
Invest To Save schemes	*0*	*8.200*	*3.000*	*8.100*
Strategic programme	*0*	*0.300*	*10.000*	*9.000*
Total expenditure	***0***	***8.500***	***13.000***	***17.100***

2. **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes.

Capital Financing Requirement	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
General Fund	4.7	4.1	3.4	2.6
Total CFR	**4.7**	**4.1**	**3.4**	**2.6**

Based on its core Capital Programme, the Council will be able to finance all of its core capital expenditure without the need to borrow, other than its existing use of Local Enterprise Partnership funding.

Should the indicative projects described above be implemented, the total indicative CFR will be as follows:

Capital Financing Requirement	***31.03.16 Estimate £m***	***31.03.17 Estimate £m***	***31.03.18 Estimate £m***	***31.03.19 Estimate £m***
Total CFR if Indicative Projects are implemented	***4.7***	***4.3***	***15.0***	***29.9***

3. **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	4.7	4.1	3.4	2.6
Total Debt	**4.7**	**4.1**	**3.4**	**2.6**

The Council made use of two Local Enterprise Partnership Infrastructure Funds in 2015/16 of £4.7m. Of which, £3m will be repaid over a seven year period from capital receipts received from the developer. The remaining £1.7m will be repaid over a five-year period.

Should the indicative projects be implemented as well as the core schemes, the total indicative Debt could be as follows:

Debt	*2015/16 Revised £m*	*2016/17 Estimate £m*	*2017/18 Estimate £m*	*2018/19 Estimate £m*
Total Indicative Debt	***4.7***	***4.3***	***15.0***	***29.9***

4. **Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst-case) scenario for external debt. It links directly to the Council's estimates of core capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	5.0	5.0	5.0	5.0
Total Debt	**5.0**	**5.0**	**5.0**	**5.0**

5. **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The estimate for 2016/17 onwards takes account of the borrowing from the Local Enterprise Partnership, together with any variations in the borrowing requirements to support some of the key Invest to Save schemes (as part of the 8 Point Plan) and other strategic projects, which have yet to be fully developed, and are not reflected within the core capital programme.

Authorised Limit	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	9.0	14.0	18.0	20.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total Debt	**10.0**	**15.0**	**19.0**	**21.0**

6. **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed "core" capital expenditure by identifying the

proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2015/16 Revised %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**
General Fund	-7	-5	-5	-5

The ratio is negative as the Council currently has net interest income.

7. **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
General Fund - increase in annual band D Council Tax	4.75	2.67	2.55

Adoption of the CIPFA Treasury Management Code: The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

MINIMUM REVENUE PROVISION STATEMENT

1.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

1.2 The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

1.3 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.4 The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. This statement only incorporates options recommended in the Guidance.

1.5 For any unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets, but which has been capitalised by regulation or direction, will be charged over 20 years.

1.6 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.7 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

1.8 Rushmoor is currently debt-free and the Council can finance its core capital expenditure without borrowings. However, as indicated in the Medium Term Strategy the Council can foresee the need to progress expenditure on Invest to Save schemes (as part of the 8-Point Plan) and other strategic projects. In which case, borrowings will be required and MRP will arise.

During 2015/16, the Council made use of two revolving infrastructure funds from the Local Enterprise Partnership (LEP). This did not give rise to MRP.

1.9 The implementation of International Financial Reporting Standards (IFRS) has meant that the accounting treatment for assets used within major contracts may result in embedded finance leases appearing on the Balance Sheet, leading to a requirement for MRP. This is purely an accounting requirement and does not give rise to any requirement to borrow to fund these assets. For 2016/17, no such embedded finance leases are envisaged.