Treasury Management Strategy Statement and Annual Investment Strategy Update 2017/18

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Council on 22nd February 2017.

There is additional wording being recommended to the Minimum Revenue Provision (MRP) Policy contained in the Treasury Management Strategy 2017/18 due to an omission. It is recommended that the following paragraph be added to section 2.3 of the Treasury Management Strategy Statement 2017/18:

> "Any equity investment made in Welland Homes and South Holland Local Housing Company which are classed as capital expenditure will increase the Council's Capital Financing Requirement (CFR). The Council will earmark the proceeds from any sale of equity interest to reduce the CFR and therefore will not apply MRP on such equity investments."

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

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	**2017-18 Original Programme £'000**	**Position As At 30-09-17 £'000**	**2017-18 Latest Approved £'000**
General Fund	5,345	1,199	4,310
Housing Revenue Account (HRA)	8,449	1,424	10,007
Total	**13,794**	**2,623**	**14,317**

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	2017-18 Original Programme £'000	Position As At 30-09-17 £'000	2017-18 Latest Approved £'000
General Fund	5,345	1,199	4,310
HRA	8,449	1,424	10,007
Total spend	**13,794**	**2,623**	**14,317**
Financed by:			
Capital receipts	1,642	121	2,203
Capital grants and Contributions	478	136	862
Major Repairs Reserve	3,708	1,420	4,869
Direct Revenue Funding	7,725	12	5,377
Total financing	**13,553**	**1,689**	**13,311**
Borrowing need	**241**	**934**	**1,006**

The borrowing need shown in the above table is the Council's purchase of an equity stake in Welland Homes and the loans made to Welland Homes. This capital expenditure has not been financed and therefore creates a borrowing requirement. Rather than take out external borrowing, the Council is utilising its cash balances and internally borrowing to finance the capital expenditure.

<u>Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary.</u>

The following 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.

	2017-18 Original Estimate For Year End £'000	2017-18 Revised Estimate For Year End £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	1,406	2,600
CFR – housing	69,583	69,572
Total CFR	**70,989**	**72,172**
Net movement in CFR	**241**	**1,006**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	67,456	67,456
Other long term liabilities	0	0
Total debt 31 March	**67,456**	**67,456**

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 2017/18 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.

	2017-18 Original Estimate For Year End £'000	**Position As At 30/09/17 £'000**	**2017-18 Revised Estimate For Year End £'000**
Gross borrowing	67,456	67,456	67,456
Less investments	(35,588)	(40,994)	(35,000)
Net borrowing	**31,868**	**26,462**	**32,456**
CFR (year-end position)	**70,989**	**72,172**	**72,172**

The Executive Director Commercialisation (Section 151 Officer) reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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	**2017-18 Original Estimate For Year End £'000**	**Position As At 30/09/17 £'000**	**2017-18 Revised Estimate For Year End £'000**
Borrowing	89,456	89,456	89,456
Other long term liabilities	1,000	1,000	1,000
Total	**90,456**	**90,456**	**90,456**

The limit of £1m for long term liabilities shown above provides headroom for the Council to take out finance leases for capital assets rather than outright purchase. Prior to taking out a finance lease, a full option appraisal would be carried out to ensure it is the most cost effective way of financing the capital expenditure.

Investment Portfolio 2017/18

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 policy. As set out in Appendix A, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are low with the bank rate at 0.50% (as at 2/11/2017). The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £41.537m of investments as at 30 September 2017 (£35.588m as at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.56% against a benchmark of 0.18% (average 3 month LIBID).

Deposits held as at 30th September 2017 were as follows:

Institution	**As at 31-03-17 £'000**	**As at 30-09-17 £'000**
Local Capital Finance Company Ltd (Equity)	50	50
Welland Homes (Equity)	877	877
Welland Homes Loan	409	1,342
Lloyds Bank PLC (Current Account)	97	109
Svenska Handelsbanken Bank (Instant Access)	1,300	4,959
CCLA Money Market Fund (Instant Access)	3,606	4,200
Lloyds Bank PLC (S106 Money)	249	0
Commonwealth Bank of Australia	2,500	0
North Somerset Council	5,000	0
Mid Suffolk District Council	2,000	0
East Ayrshire Council	2,500	0
Dover District Council	4,000	0
Lloyds Bank	3,000	0
Qatar National Bank	5,000	5,000
Goldman Sachs International Bank	5,000	5,000
Royal Bank of Scotland	0	5,000
First Abu Dhabi Bank	0	5,000
Nationwide BS	0	5,000
Central Bedfordshire Council	0	5,000
TOTAL	**35,588**	**41,537**

The Council's budgeted investment return for 2017/18 is £149,900 and performance for the year to date is £111,745. Expectation is that the outturn for investment returns will be approximately £220,000.

The Council monitors risk of its investment portfolio against the Link Asset Services counterparty risk matrix. This matrix gives recommended maximum investment durations for each financial institution based on the ratings allocated by the major credit rating agency's and also takes into account credit default swap prices.

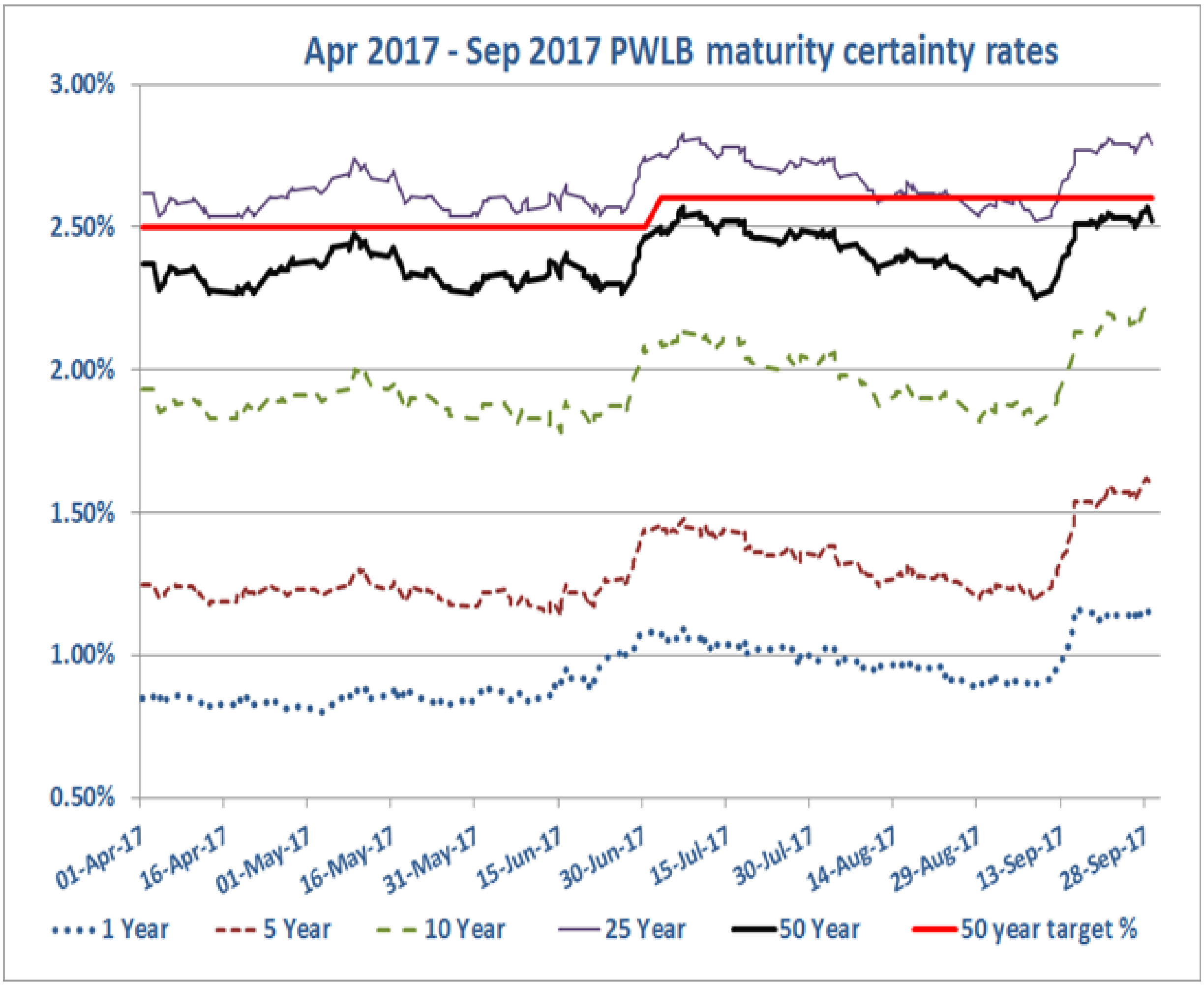
Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing

The Council's projected capital financing requirement (CFR) for the end of 2017/18 is £72.172m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £67.456m in respect of the Housing Revenue Account self-financing settlement and it is anticipated that further borrowing will not be undertaken during this financial year.

The graph below shows the movement in PWLB rates for the first six months of the year to 30th September 2017:



APPENDIX B

Debt Rescheduling

The majority of the Councils debt was taken out in March 2012 as part of the HRA Financing Reforms. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.