Uttlesford District Council

Treasury Management Strategy

2015/16

Contents

1.0 - Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management requires the preparation of an annual Treasury Management Strategy Statement (TMSS).

1.2 Treasury Management activities are defined by CIPFA as:

"The management of the Council's investments, borrowing and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimal performance consistent with those risks."

1.3 The Council regards the successful identification, monitoring and control of risk to be prime criteria by which the effectiveness of its treasury management activities will be measured. Therefore, any reporting of treasury management activities will focus on the risk to the Council and the management of such risks.

1.4 The main risks to the Council's treasury activities are:

- Liquidity risk (inadequate cash resources)
- Market or interest rate risk (fluctuations in interest rates)
- Inflation risk (exposure to change in prices)
- Credit and counterparty risk (security of investments)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory risk (i.e. non-compliance with requirements)

1.5 The main changes from the strategy adopted in 2014/15 are:

The counterparty list has been revised to include Fire Authorities and Police Authorities.

The new strategy also recognises that counterparty list regularly changes during the financial year and the Council will set a maximum cash, credit rating and time limit for relevant counterparties as it sees appropriate for the Council and also work within the parameters regularly advised by Treasury Management Consultants, Arlingclose through their counterparty list.

The Council has also reduced its minimum credit rating requirement due to the expected overall credit rate lowering by credit rating agencies following the implementation of bail-in legislation.

The strategy overall provides more opportunity to diversify the surplus of cash in order to reduce the risk the Council is exposed to within the financial markets.

2.0 - Policies and Objectives

2.1 The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and services objectives. Therefore, it is committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

2.2 The Council's borrowing will be affordable, ensuring appropriate provision is made within the revenue budget to repay debt. It should also be sustainable and prudent, consideration being given to the management of interest rate risk and risks associated with refinancing. Also, the Council's borrowing activities will be transparent as will its control of its debt.

2.3 With regards to the Council's Investment Strategy the key focus and order of priority will be as follows:

1) Security
2) Liquidity
3) Return

3.0 - Reporting Requirements

3.1 In line with best practice, Members are required to receive and approve, as a minimum, three main reports each year. The report which should accompany the Council's budget strategy and Medium Term Financial Strategy (MTFS) is to be reviewed by Scrutiny Committee prior to approval by Cabinet and referral to Full Council. The main reports to be reviewed during the year are:

a) Mid-Year Treasury Management Report:

updating Cabinet with progress on the capital position, amending the prudential indicators or Investment Counterparty list as necessary and in general revising the TM strategy if need be.

b) An Annual Treasury Management Outturn Report:

Providing details of actual prudential and treasury indicators and actual treasury operations compared to the estimates included in the strategy. The report will be presented to Cabinet in September 2014 after the financial year end.

c) Treasury Management Regular Reports:

included within the General Fund, Housing Revenue Account and Capital Programme budget monitoring reports received by the Cabinet as scheduled in the Committee reporting timetable.

4.0 - External Context

4.1 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

4.2 The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

4.3 Credit outlook: The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

4.4 Interest rate forecast:

The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%.

4.5 A more detailed economic and interest rate forecast provided by the Arlingclose is attached at ***Appendix A3***.

5.0 - Borrowing Strategy

5.1 The Council maintained an 'under-borrowed' position up until 28th March 2012. This means that the Capital Financing Requirement was not funded with new external debt as cash supporting the Council's reserves balances and cash flow have been used. This position changed with the need to borrow to finance the HRA 'Self Financing' payment.

5.2 The Medium Term Financial Strategy (MTFS) is based on the following borrowing assumptions for the next five years:

- *To finance capital expenditure by continuing to run down cash balances and forego interest income at historically low interest rates.*
- *The Council has signed up for the Government's new 'certainty rate' for local authorities of 0.2% below the standard PWLB rates but the arrangement will not be required for 2015/16 as the intention is to use internal borrowing which is currently more cost effective.*
- *If there is a significant risk of a sharper rise in long and short term rates than forecast then the debt portfolio position will be reappraised; with consideration given to fixed rate funding whilst rates are still relatively cheap.*

5.3 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

5.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustainable in the medium-term.

5.5 In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

5.6 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and its successor body
- UK local authorities
- any institution approved for investments
- any other bank or building society authorised by the Prudential Regulation Council to operate in the UK

5.7 The Council has previously raised £88.407m of long-term borrowing from the Public Works Loan Board.

6.0 - Debt Rescheduling

6.1 The Council's debt portfolio can be restructured through the premature repayment of loans and refinancing to reduce interest rate risk and make savings in the revenue budgets.

6.2 The Council currently pays approximately £2.6m each year towards interest cost for the £88.407m loan borrowed from PWLB.

6.3 The Council has the option of paying off some of the loans prior to maturity in order to benefit from discount rates and save on future interest rate payments if cash flow forecast permits. Following discussions with the Council's Treasury Management consultants it is agreed that the Council could benefit from future discount rates offered by Public Works Loan Board (PWLB) and overall reduce cost to the Council. With the assistance of the Council's treasury advisors, the debt portfolio will be kept under review to take advantage of any rescheduling opportunities.

January 2015 – Fixed Rate Loans Only

Start Date	Maturity Date	Years to Final Maturity	Principal	Coupon Rate	(Premium)/ Discount	Redemption Amount Excluding Interest
28/03/2012	28/03/2024	9.2	£3,000,000	2.70%	(£351,482)	£3,351,482
28/03/2012	28/03/2034	19.2	£4,000,000	3.37%	(£912,636)	£4,912,636
28/03/2012	28/03/2036	21.2	£4,000,000	3.42%	(£976,938)	£4,976,938
28/03/2012	28/03/2032	17.2	£4,000,000	3.30%	(£843,896)	£4,843,896
28/03/2012	28/03/2025	10.2	£3,000,000	2.82%	(£396,950)	£3,396,950
28/03/2012	28/03/2026	11.2	£3,000,000	2.92%	(£437,133)	£3,437,133
28/03/2012	28/03/2028	13.2	£3,000,000	3.08%	(£514,208)	£3,514,208
28/03/2012	28/03/2037	22.2	£5,000,000	3.44%	(£1,254,210)	£6,254,210
28/03/2012	28/03/2023	8.2	£2,000,000	2.56%	(£203,229)	£2,203,229
28/03/2012	28/03/2039	24.2	£5,000,000	3.47%	(£1,337,531)	£6,337,531
28/03/2012	28/03/2031	16.2	£4,000,000	3.26%	(£810,551)	£4,810,551
28/03/2012	28/03/2041	26.2	£5,000,000	3.49%	(£1,406,088)	£6,406,088
28/03/2012	28/03/2029	14.2	£3,000,000	3.15%	(£546,216)	£3,546,216
28/03/2012	28/03/2027	12.2	£3,000,000	3.01%	(£477,388)	£3,477,388
28/03/2012	28/03/2038	23.2	£5,000,000	3.46%	(£1,295,764)	£6,295,764
28/03/2012	28/03/2042	27.2	£5,407,000	3.50%	(£1,574,953)	£6,981,953
28/03/2012	28/03/2035	20.2	£4,000,000	3.40%	(£948,829)	£4,948,829
28/03/2012	28/03/2040	25.2	£5,000,000	3.48%	(£1,366,852)	£6,366,852
28/03/2012	28/03/2033	18.2	£4,000,000	3.34%	(£882,131)	£4,882,131
28/03/2012	28/03/2030	15.2	£4,000,000	3.21%	(£775,770)	£4,775,770
		19.0	£78,407,000	3.28%	(£17,312,754)	£95,719,754

7.0 - Investment Strategy

7.01 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's outstanding investment balance has ranged between £18m and £38 million, and similar levels are expected to be maintained in the forthcoming year.

7.02 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 receiving unsuitably low investment income.

7.03 The Council may invest its surplus funds with any of the counterparties in section 7.17 subject to the cash, credit rating and time limits shown.

7.04 Given the increasing risk and continued low returns from short term unsecured bank investments the Council aims to diversify into more secure and/or higher yield during 2015/16.

7.05 Current Account:

The Council banks with Barclays plc which meets the Council's minimum credit criteria, BBB+. Even if the banks credit rating fell below the Council's minimum rating the bank would continue to be used to facilitate short term liquidity requirements (overnight and weekend investments) and to provide business continuity arrangements.

7.06 In determining the maximum investment with Barclays plc the Council will need to exclude the balance on the Deposit and General account which are all non-fixed cash balances and are callable at any time.

7.07 For liquidity reasons and to ensure optimum interest the Council should hold no more than £1.5m of cash overnight on the Barclay Bank General Bank, i.e. callable account, excluding the deposit account

7.08 The Council will also have the flexibility to open accounts with other banks subject to meeting Council's minimum credit criteria and the parameters listed within the Counterparty list. The Council will be able to hold cash balances of up to £1m, excluding fixed term deposits, per callable account with other Banks. Therefore cash balances in these accounts can be requested on the same day to help with Council's cash flow requirements during the year and earn interest returns at the same time.

7.09 This level of diversification will ensure security and liquidity of the investments the Council makes on a daily basis as part of its treasury management arrangements.

7.10 Banks Unsecured:

These are accounts, deposits and building societies. 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 investments with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's General Bank Account with Barclays plc.

7.11 Government:

These are loans, bonds and bills issued or guaranteed by national governments, regional and local authorities. 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.

7.12 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. Fees between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts. The Council currently only uses UK domiciled Money Market Funds. In 2014/15 the Council only invested in the public sector deposit fund.

7.13 Use of Financial Instruments

Although legislation has opened up the ability of Councils to operate in a similar manner to a corporate body (General Power of Competence – Localism Act 2011) and use financial derivatives to manage its treasury management risks. The Council does not at present intend to use derivative financial instruments to manage treasury management risk.

7.14 Treasury-Bills (T-Bills):

These are short term securities issued by HM Treasury on a discount basis. For example a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the interest received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date. The Council has invested in T-Bills in 2014/15 using Barclays Plc as the Custodian account.

7.15 Government Gilts:

Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal. The Council has not invested in Gilts in 2014/15.

7.16 Specified Investments:

The CLG Guidance defines specified investments as those denominated in pound sterling and due to be repaid within 12 months of arrangement. Also not defined as capital expenditure by legislation, and invested with the UK Government, a UK local Authority, or a body or investment scheme of “high credit quality”.

7.17 Non-specified Investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares.

7.18 Given the Council’s current risk appetite in the current economic climate the Council is not willing to consider ‘Non Specified’ investments.

7.19 Investment Limits

The Council’s revenue reserves available to cover investment losses are forecast to be £10.547 million on 31st March 2015.

Counterparty list:

General Counterparty list *		Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£2m	365 days
	AA+	£2m	365 days
	AA	£2m	365 days
	AA	£2m	365 days
	AA-	£2m	365 days
	A+	£2m	182 days
	A	£2m	182 days
	A-	£2m	182 days
	BBB+	£1m	100 days
Council's General bank acount if it fails to meet the above criteria, excluding fixed term deposit accounts		£1.5m	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years
UK Local Authorities including Fire and Police (irrespective of credit rating), per authority		£3m	182 days
UK Building Societies without credit ratings		£1m	100 days
Saffron Building Society		£0.5m	100 days
Money Market Funds, UK Domiciled per fund	AAA	£1m	next day

* The list is the maximum risk appetite the Council is willing to take and will not invest with Counterparties outisde of the Arlingclse Counterparty list. Furthermore UDC will not exceed the cash, credit rating and time limit set by Arlingclose in their regularly updated counterparty report

7.20 Approved Instruments:

The Council may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans,
- Government Treasury Bills (T-Bills)
- Money Market Funds and other pooled funds.

7.21 Investments may be made at either 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.

8.0 - Risk Assessment

8.1 Where applicable, 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,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

8.2 Credit rating:

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

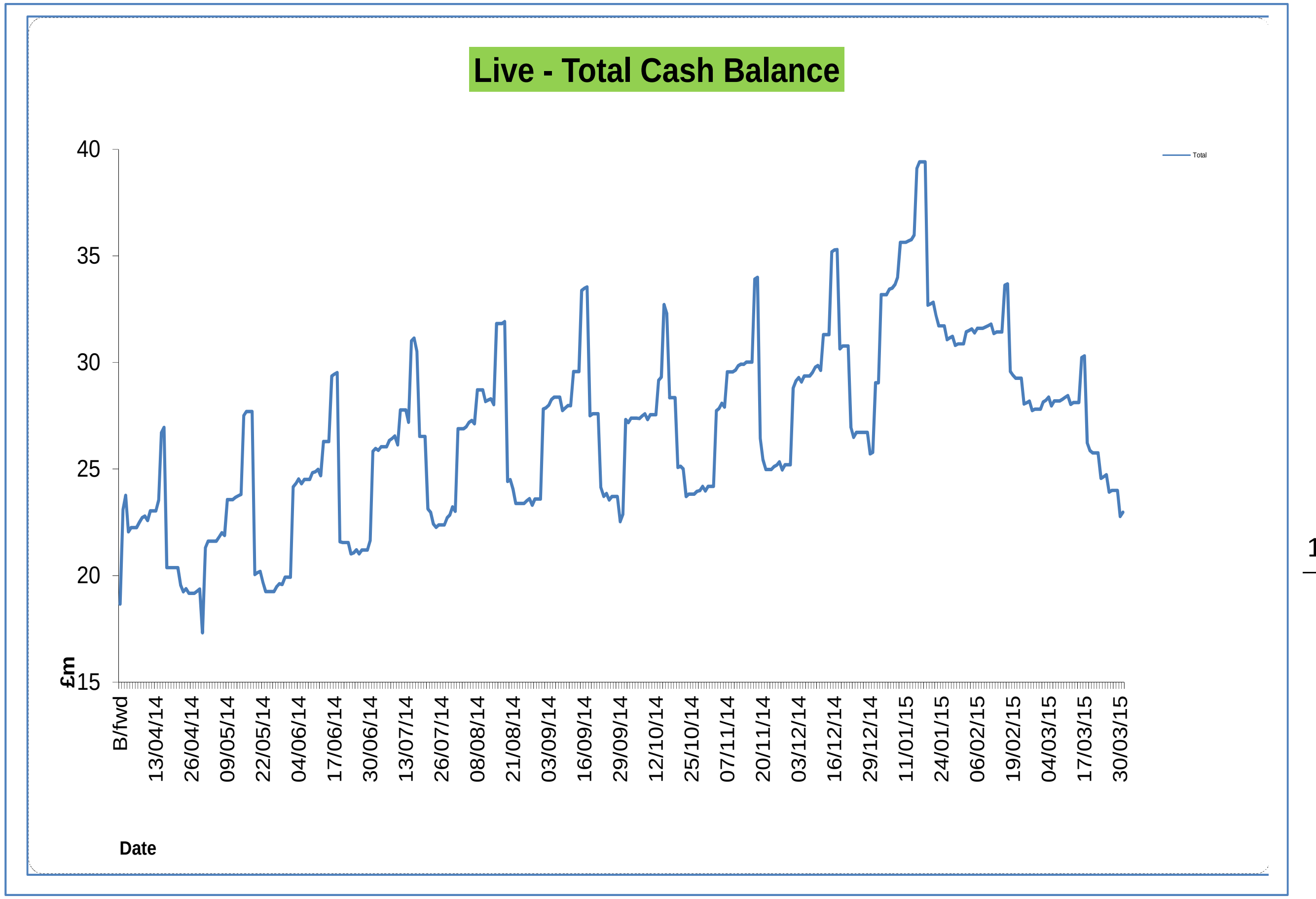
8.3 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

8.4 The extent of these restrictions will be in line with prevailing financial market conditions. 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, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

9.0 - Liquidity Management

9.1 The Council uses cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed.

9.2 The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.



10.0 - Governance Arrangements

10.1 Treasury Management Scheme of Delegation:

The following lists the main treasury management responsibilities in relation to the relevant individual/Committee:

Full Council:
Approval of the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision.

Cabinet:
Reviews the Treasury Management Strategy and recommends the Strategy for approval by Full Council. Receive reports on Treasury Management activities.

Performance and Audit Committee:
Monitors compliance with the Council's Financial Regulations.

Scrutiny Committee:

Assists in the development of budget and policy framework. Reviews and scrutinises policy objectives and performance targets.

S151 Officer – Director of Finance and Corporate Services:

Implements and monitors the Treasury Management Strategy. Reports to Cabinet no less than three times in each financial year on treasury management activities and the relevant delegated powers.

One activity report must comprise the annual treasury management outturn report. To be reported to Cabinet by the September following the end of the financial year.

11.0 - Treasury Management Procedures

11.1 Treasury Management Procedures (TMP's) will be reviewed on an annual basis prior to the commencement of the financial year and will be in compliance with CIPFA's guidance on Treasury Management Practices.

11.2 Role of Treasury Management Advisors:

The Council uses Arlingclose as its treasury management advisors, which provides access to specialist skills/resources in the following areas:

- Credit Advice
- Investment advice
- Technical advice
- Economic and interest rate forecasts
- Workshops and training events
- HRA support, etc

11.3 The quality of the service provided by Arlingclose reviewed by the Chief Finance officer and other relevant staff members.

11.4 In applying the Council's agreed terms of appointment and undertaking timely reviews of the service provided; the value added from the appointment can be assessed and properly documented.

11.5 The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that the appropriate training and decision making process does not place undue reliance on the advisors.

11.6 Training:

CIPFA's Code of Practice requires the S151 Officer to ensure that all officers and members tasked with treasury management responsibilities, including scrutiny of the TM function receive appropriate training and understand fully their roles and responsibilities.

12.0 – Existing Investment & Debt Portfolio Position

Forecast Investment and Debt Portfolio Position As at 31st March 2015	
Balance Sheet Extract	**Forecast £'000**
External Borrowing:	
Variable Rate PWLB	10,000
Fixed Rate PWLB	78,407
Total External Borrowing	**88,407**
Other Long Term Liabilities:	
PFI	5,053
Finance Leases	14
Pension Liability	0
Total Long Term Liabilities	**5,067**
Total Gross Debt	**93,474**
Investments	
Long Term Investments	0
Short Term Investments	21,000
Cash and Cash Equivalents	2,416
Total Investments	**23,416**
Net Borrowing	**70,058**

Prudential Indicators

2015/16

Contents

1.0 - Introduction

1.1 This report covers the requirements of the 2011 CIPFA Prudential Code (as amended in 2012) to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement.

2.0 - Background

2.1 Prudential Indicators 2015/16:

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.

2.2 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.

2.3 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.

3.0 – Capital Expenditure

3.1 The Council's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure - General Fund £000s	2014/15 Current Budget	2014/15 Forecast Spend	2015/16 Budget	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	Total
Total Capital Expenditure	2,419	2,347	3,979	1,022	1,321	701	2,611	14,400
Financing - General Fund								
Grants & Contributions	-420	-1,008	-1,603	-103	-103	-103	-103	-3,443
Revenue Contributions	-1,353	-910	-1,030	-297	-298	-300	-300	-4,488
General Fund Capital Receipts	0	-70	0	0	0	0	0	-70
Internal Borrowing	-646	-359	-1,346	-622	-920	-298	-2,208	-6,399
Total Capital Financing	-2,419	-2,347	-3,979	-1,022	-1,321	-701	-2,611	-14,400
Net Financing Need (External Borrowing)	0	0	0	0	0	0	0	0

Housing Revenue Account Capital Schemes £000s	2014/15 Current Budget	2014/15 Forecast Spend	2015/16 Budget	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	Total
Total Capital Expenditure	9,797	7,648	9,774	9,174	5,028	5,691	5,545	52,657
Financing - Housing Revenue Account								
Major Repairs Reserve Contribution	-3,227	-3,227	-3,334	-3,427	-3,502	-3,578	-3,541	-23,836
HRA Financial Headroom - Specific Schemes	-3,720	-1,619	-2,432	-2,802	-1,046	-719	-1,439	-13,777
HRA Revenue Contributions	-1,291	-1,221	-1,066	-626	-210	-797	-50	
HRA Headroom - Funded from reserves	-835	0	-1,374	-1,405	0	-417	-335	-4,366
Grants & Contributions	0	0	-800	0	0	0	0	-800
S106 - Housing Partnership Funding - HRA	0	-1,192	-434	0	0	0	0	-1,626
Capital Receipts - RTB	-724	-389	-334	-176	-270	-180	-180	-2,253
Internal Borrowing	0	0	0	-738	0	0	0	-738
Total Financing	-9,797	-7,648	-9,774	-9,174	-5,028	-5,691	-5,545	-52,657
Net Financing Need (External Borrowing)	0	0	0	0	0	0	0	0

4.0 – Capital Financing Requirement

4.1 Estimates of Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

CAPITAL FINANCING REQUIRMENT	Forecast 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
General Fund	9,752	9,412	10,100	9,993	10,059	11,409
Housing Revenue Account (HRA)	88,407	88,407	89,144	88,261	86,260	84,260
TOTAL	**98,159**	**97,819**	**99,244**	**98,254**	**96,319**	**95,669**

5.0 – Operational Boundary

5.1 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 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 lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

6.0 - Authorised Limit

6.1 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.

Prudential Indicator	Forecast 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Operational Boundary	93,474	93,364	93,261	91,149	89,028	86,897
Authorised Limit	101,474	101,364	101,261	99,149	97,028	94,897

7.0 – Ratio of Financing Costs to Net Revenue Stream

7.1 Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	Forecast 2014/15 %	Estimate 2015/16 %	Estimate 2016/17 %	Estimate 2017/18 %	Estimate 2018/19 %	Estimate 2019/20 %
General Fund	8.00%	8.18%	9.04%	9.48%	9.76%	9.25%
Housing Revenue Account	17.10%	16.93%	16.76%	16.57%	16.17%	15.73%

8.0 – Incremental Impact of Capital Investment Decisions

8.1 Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent 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 earlier in this report.

INCREMENTAL IMPACT OF CAPITAL INVESTMENT	Forecast 2014/15 £	Estimate 2015/16 £	Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
General Fund, Council Tax Impact	13.51	49.71	8.96	19.32	4.11	0.00
Housing Revenue Account (AWR)	16.03	-0.99	4.65	18.52	-6.28	0.00

AWR = Average Weekly Rent

9.0 – Interest Rate Exposure

9.1 Interest Rate Exposures:

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable.

Interest Rate Exposure	Forecast 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Limit and Fixed Interest Rate paid on Net Debt	2,570	2,570	2,570	2,570	2,570	2,570
	3.28%	3.28%	3.28%	3.28%	3.28%	3.28%
Limit and Variable Interest Rate paid based on Net Debt	75	100	125	150	140	120
	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%

Fixed Rate Limit 4%
Variable Rate Limit 2%

10.0 – Liquidity / Refinancing

10.1 Maturity Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk. This is the upper limit on the maturity structure of **fixed** rate borrowing.

10.2 The limits are set for each category to ensure that the Council avoids fixed rate loans being matured in one time and spreads that across several periods.

Liquidity/Refinancing	2015/16 £000's
Maturity Structure - Upper Limit	
Under 5 Years	4,000
5 years to 10 years	14,000
11 years to 20 years	36,000
21 years and above	34,407
Total	**88,407**

An example for clarity: If the Council decides to borrow £5m **fixed rate** loan in 2015/16 it must ensure that the Council's total **fixed** rate loan should not all mature within the next five years as it is capped at £4m.

Minimum Revenue Provision Statement

2015/16

Contents

1.0 - Introduction

1.1 This report covers the requirements of the latest Guidance on Minimum Revenue Provision for an annual MRP statement. The Statement should be approved by the full Council before the start of the new financial year which is a legislative requirement.

2.0 - Background

2.1 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 charge since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's / Department of Environment's *Guidance on Minimum Revenue Provision* (the DCLG/DOE Guidance) most recently issued in 2012/2011.

2.2 The broad aim of the DCLG/DOE 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.

3.0 - UDC Minimum Revenue Provision Statement

3.1 The DCLG/DOE 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. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

3.2 For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by either charging the expenditure over the useful economic life of the relevant assets in equal instalments or as the principal repayment on an annuity with a specifically determined annual interest rate, starting in the year after the asset becomes operational. If additional financing capacity permits the authority reserves the right to charge MRP over shorter periods to help with minimising the level of the capital financing requirement burden in subsequent years.

3.3 Where MRP is charged over the useful economic life of the asset it will be consistent with the write down period adopted for the same assets in the Council's accounting policy for depreciation.

3.4 For assets acquired by finance leases or the 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.

3.5 MRP in respect of the £88.407m payment made in 2012 to exit the Housing Revenue Account subsidy system will be determined as being equal to the principal amount repaid on the loans borrowed to finance that payment.

3.6 Expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged to revenue in the year the expenditure is incurred. Examples of this expenditure include Community Grants, Disabled Facilities Grants and Private Sector Renewal Grants.

3.7 Expenditure related to capital contracts which is classified as work in progress at year-end, will be fully financed in the year the expenditure is incurred.

4.0 – CFR / MRP Tables

	31.03.2015 Estimated CFR	2014/15 Estimated MRP
	£m	£m
Capital expenditure before 01.04.2008	-	-
Supported capital expenditure after 31.03.2008	-	-
Unsupported capital expenditure after 31.03.2008	4.685	0.361
Finance leases and Private Finance Initiative	5.067	0.106
Transferred debt	-	-
Loans to other bodies	-	Nil
Total General Fund	**9.752**	**0.467**
Assets in the Housing Revenue Account	0.000	Nil
HRA subsidy reform payment	88.407	-
Total Housing Revenue Account	**88.407**	**0.000**
Total	**98.159**	**0.467**

Economic Forecast

2015/16

Arlingclose Economic & Interest Rate January 2015:

Underlying assumptions:

The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.

Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.

Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.

In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

We continue to forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate. We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.

The short run path for gilt yields has flattened due to the sharp decline in inflation expectations. We project gilt yields on an upward path in the medium term.

The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90