

**AMENDMENT TO TREASURY MANAGEMENT STRATEGY 2015/16****Introduction**

- 1 As a consequence of expanding the Property Investment Strategy, it will be necessary to review the annual Treasury Management Strategy. The Strategy for 2015/16 was approved by Council on 17 February 2015.
- 2 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 4 Any amendment to the Strategy requires approval by full Council. Whilst the policies for managing investments do not need to change for the time being, those relating to borrowing will need revision.

**Capital Prudential Indicators 2015/16 to 2017/18**

- 5 The annual Treasury Management Strategy includes three Prudential Indicators relating to borrowing:

The Operational Boundary

- 6 This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. The current figures are:

<b>Operational boundary</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
<b>Total</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>

In light of the proposals for the Property Investment Strategy, it is recommended that this Indicator be amended as follows:

<b>Operational boundary</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>
Debt	5,000	10,000	10,000	10,000
Other long term liabilities	0	0	0	0
<b>Total</b>	<b>5,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

The Authorised Limit for external debt

- 7 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
- 8 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- 9 The current Authorised Limits are:

<b>Authorised Limit</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
<b>Total</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>

In light of the proposals for the Property Investment Strategy, it is recommended that this Indicator be amended as follows:

<b>Authorised Limit</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>
Debt	5,000	10,000	10,000	10,000
Other long term liabilities	0	0	0	0
<b>Total</b>	<b>5,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

Treasury Management Limits on Activity

- 10 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs and/or improve performance. The indicators are:
  - a. Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position, net of investments.
  - b. Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

c. Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

11 At the present time, there is no need to change these indicators:

Interest rate exposures	2015/16 %	2016/17 %	2017/18 %
Upper limit for variable interest rate exposure	50%	50%	50%
Upper limit for fixed interest rate exposure	100%	100%	100%
<b>Maturity structure for borrowings:</b>			
Upper limit for under 12 months	100%	100%	100%
Lower limit for under 12 months	0%	0%	0%
Upper limit for over 12 months	100%	100%	100%
Lower limit for over 12 months	0%	0%	0%

**Other prudential Indicators**

12 Once further property investments have been selected and a requirement to borrow has been identified, changes will be required to Prudential Indicators relating to the Council’s Borrowing Need (the Capital Financing Requirement or ‘CFR’) as well as the Council’s Minimum Revenue Provision (MRP) strategy. Details will be put before Members at the appropriate time.

**Policy on borrowing in advance of need**

13 Borrowing in advance of need is a recognised tool in any treasury management strategy. It enables forward planning to take advantage of favourable interest rates, rather than being reliant on prevailing interest rates at the actual time the borrowing is required.

14 If any borrowing activity is undertaken, it should be noted that the Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

15 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism