Appendix E

Treasury Management Strategy, Minimum Revenue Provision Strategy and Annual Investment Strategy

1. The CIPFA Treasury Management Code of Practice

1.1 The Treasury Management and Investment Strategy has been set in accordance with the CIPFA Treasury Management Code of Practice 2011 and the revised Prudential Code for Capital Finance 2011.

1.2 The Council is required to approve a Treasury Management Strategy which establishes the investment and borrowing activities for the Council. The Council's approach to Treasury Management is in accordance with the Cipfa Code of Practice, which requires a 3 year strategy to be agreed annually.

1.3 The Prudential Code for Capital requires the Council to set Prudential Indicators for Treasury Management and Capital Expenditure. These are linked to the Strategy and are set out at the end of this document.

1.4 The Council is also required to make an annual Policy statement on making Minimum Revenue Provision (MRP) for borrowing, together with the consideration of prudent provision in future financial years. The Council has not formally adopted an MRP Policy to date as it has held no external borrowing.

1.5 The Council delegates responsibility for the monitoring and scrutiny of treasury activity to the Governance & Audit Committee, and delegates responsibility for implementing and administering the strategies, policy and procedures to the Chief Finance Officer. The Council also seeks external advice from Tradition on management of long term investments. Future provision of treasury and property advice is under review as the Finance function is outsourced in 2017 and as part of the property strategy review.

2. Treasury Management Policy 2017/18

2.1 The Council's ambition to acquire property sites for strategic, operational and investment purposes will move the Authority into a net borrowing position during 2017/18. The proposed policy for managing borrowing to finance such expenditure is to borrow short term, and monitor interest rates closely in order to switch to longer term fixed rate borrowing where analysis of market rates suggests this may be appropriate. The Council will also investigate the use of the Public Works Loan Board for operational asset investments, to reduce exposure to interest rate increases in the future.

2.2 Property acquisitions prior to 2017/18 have been financed through surplus cash. However, this cash is intended to support reserves and General Fund in the longer term and the minimum liquidity has now been reached.

2.3 Current market indications suggest that there will be no base rate increases in the short term as the Bank of England seek to mitigate the impact of the UK's exit from the European Union. However, the swap rates on which bank borrowing will build in expectations of future increases and therefore the borrowing rates achieved may be greater than the base rate.

Economic Factors

2.4 Factors that influence the Council's Treasury Management Strategy include the Council's overall level of resources, medium term spending plans and the need to finance the future cost of services. It is also influenced by the state of the economy in general, the outlook for interest rates and the credit risk environment.

2.5 The Treasury strategy is linked to the Council's medium term financial plans, and are reflected in a net interest cost or yield in the Council's budget. The net cost/yield estimates are updated regularly through the budget setting process and in year forecasting.

2.6 The Council's investment strategy gives scope to invest in approved instruments outlined in the approved lending/borrowing list (Schedule 3), but investments in banks and building societies are limited to high quality counterparties only.

Prudential Indicators

2.7 The Prudential Indicators were established as part of the Local Government Act 2003 through the Prudential Code. The Code requires the Council to produce indicators to demonstrate that capital financing is prudent, sustainable and affordable. The indicators are set out at the end of this document.

MRP Policy

2.8 The Council is required to calculate an amount in relation to its borrowing, and charge this amount as Minimum Revenue Provision to its Income & Expenditure Account in respect of borrowing repayment. The Policy is set out at Schedule 4 to the Treasury Management Strategy.

Officer Approval Limits

2.9 The Chief Financial Officer, in consultation with the Executive Board, Asset Management Group Leader, and the Leader/Deputy Leader, will have authority to sign off property purchases up to the value of £10m without cabinet approval.

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Risk Management

2.10 Minimising risk is a key aspect of treasury management activity. Risk is proactively managed with advice from Tradition and property investment decisions are subject to detailed business cases. As the Council moves towards a net borrowing position, interest rate exposure is an emerging risk and the timing of any move from short to long term borrowing is closely monitored.

2.11 The Finance Team carry out their duties in accordance with internal controls to ensure any day to day investment decisions are made in accordance with the Treasury Management Strategy.

2.12 The CFO reports on Treasury activity as part of the monthly financial monitoring.

2.13 The Governance & Audit Committee will be responsible for the scrutiny of Treasury Management activity & practises.

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SCHEDULE 1 – TREASURY MANAGEMENT STRATEGY

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance. The Authority is proposing to borrowed substantial sums of money and, as a result, may be exposed to financial risks arising from changing interest rates.
The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Havant Borough Council's context

Havant Borough Council anticipates that, by 31 March 2017, £5m will be invested short term, and no long term deposits maturing beyond 12 months There was external borrowing in place as at January 2017 of £3.7m.

The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The CFR is anticipated to increase as a result of the Council's desire to build its investment property portfolio over the period of the Medium Term Financial Strategy. The Prudential Code recommends that total debt should be lower than the CFR and the Prudential Indicators at schedule 2 demonstrates that this recommendation has been complied with.

Borrowing Strategy

The Council will adopt a flexible approach to borrowing in consultation with Treasury Management advisors, and will keep under review the following borrowing sources:

- Internal borrowing (borrowing against future revenue budgets)
- PWLB
- Other Local Authorities
- Finance Leasing
- Brokers for short term borrowing

Exposure to short dated/variable rate borrowing will be reviewed by reference to the difference between variable rate and longer term borrowing costs. A significant change in this difference will trigger a review of borrowing strategy to determine whether a switch to longer term rates is made or whether exposure to short term rates is maintained.

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Capital Finance can also be raised through other debt liabilities, including Finance Leases, Private Finance Initiatives, Sale & Leaseback, or LGA Bonds. Any decision to raise finance through these methods will be subject to appraisal and a separate report to Cabinet.

The Council may take advantage of debt rescheduling (the repayment of loans before maturity to allow replacement with new loans) where it is expected to create a cost saving or significantly reduce interest rate risk to the Council.

Investment Strategy

The Council's overriding objective in relation to the investment of cash is the security of the capital invested, followed by the liquidity of investment. The Council aims to maximise yield given these parameters.

Investments are categorised as specified or non specified investments. Specified investments are sterling denominated investments maturing under 1 year, and non specified investments are effectively anything else.

The CFO has discretion to make investments outside of the Lending list on the advice of Capita. Institutions may be added or removed from the list if credit ratings improve or deteriorate below the thresholds outlined on the List.

Overnight funds are held in an overnight fund provided by the Council's bank. Consideration will be given to Money Market Funds in 2017/18 as an alternative to the overnight account, and may be utilised if the CFO is satisfied with the level of risk.

The Council will arrange short term investments through brokers, in order to ensure transactional security and to promote competition to enhance returns. The approved brokers are:

- ICAP Europe Ltd
- Prebon Marshall Yamane UK Ltd
- Tradition UK
- RP Martin

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Interest Rate Forecasts

The Council use Tradition UK Ltd as a treasury adviser to the Council who, as part of their service, assist the Council in formulating a view on interest rates. Tradition's view is that interest rates are likely to remain static for at least one year, and that increases beyond this would be incremental. Although there are inflationary pressures, there is also uncertainty as to how Brexit negotiations will affect the wider economy. This view is supported by forecasts obtained from the Centre for Economics and Business Research, who anticipate no base rate increases until the end of 2017. The table below details interest rate forecasts provided.

	2017/18				2018/19			
	Qtr 1	**Qtr 2**	**Qtr 3**	**Qtr 4**	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**
Tradition UK Ltd	0.25%	0.25%	0.25%	0.25%	0.5%	0.5%	0.75%	1.00%
Centre for Economics & Business Research	0.25%	0.25%	0.25%	0.25%	0.25%	0.5%	0.5%	0.75%

It is important to note that although the base rate has reduced, the rates that we can get on our investments are based on the London Inter bank Offer rate, which fluctuates depending on other market factors. This explains the differing rates of return of our current investment portfolio.

Creditworthiness Policy

The Council monitors the creditworthiness of the counterparties used. The Council's lending list contains only counterparties of high credit quality. Credit quality is assessed through the size of the asset base of the counterparty, and the credit ratings awarded by independent credit rating agencies such as Fitch.

The asset base of counterparties is monitored on an annual basis when the Statement of Accounts for each counterparty is issued. Credit ratings are regularly monitored and are verified prior to investments being made.

Credit ratings of counterparties are available from credit agencies (Fitch, Standard & Poor, and Moody's). Advice on the credit worthiness of counterparties is also obtained from the Council's Treasury advisors.

If a counterparty on the current lending list is found to be of insufficient credit quality, the Council will not engage with that counterparty until it is satisfied that credit quality has improved. Treasury officers continue to monitor counterparties that are not currently on the lending list, and will add counterparties of high credit quality to the lending list in consultation with the Portfolio Holder for Finance.

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The Council has not invested outside the United Kingdom since 2006, and currently no foreign counterparties are contained within the list (with the exception of Santander UK Plc, which is a UK bank under Spanish ownership). Foreign counterparties are monitored, and if sufficient credit quality is proved, may be added to the list in consultation with the Portfolio Holder for Finance.

Sole reliance will not be placed on credit ratings. The Council will continue to monitor reports in the press, market data and information on government support when reviewing credit worthiness. All counterparties on the long term lending list are also covered by the government's Credit Guarantee Scheme.

All Long Term Investments will be carried out in consultation with the Finance Portfolio Holder and the S151 Officer.

Treasury Limits and Prudential Indicators 2015/16 to 2021/22

The revised CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance, in accordance with Section 3 of the Local Government Act 2003, require the Council to determine and review the level of borrowing that it can afford.

The Codes require a number of indicators to be formally set, on a rolling basis, for 2016/17 and the following two years. The Council must have regard to the following when setting these indicators:

- Service Objectives
- Stewardship of Assets
- Value for Money
- Prudence and Sustainability
- Affordability and Practicality

The purpose of these indicators is to ensure that total capital investments and, in particular, the effect of these investments on the Council Tax level is 'acceptable'.

The Prudential Indicators set for 2017/18 are shown in Schedule 2 below. An explanation is provided for each indicator.

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SCHEDULE 2 - PRUDENTIAL INDICATORS

1) Ratio of Financing Costs to Net Revenue Stream

The actual ratio for 2015/16, and estimated ratios for 2016/17 to 2021/22 are provided below.

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
£000s	£000s	£000s	£000s	£000s	£000s	£000s
5.98%	5.19%	5.31%	4.92%	5.27%	5.31%	5.32%

The purpose of this indicator is to show the total cost of financing capital expenditure as a percentage of net revenue expenditure.

2) Estimated Incremental Impact of Capital Investment Decisions on Council Tax

Capital expenditure will impact on revenue expenditure in a number of ways, for example, new buildings requiring maintenance that was not previously budgeted. The main impact is on interest returns, as investments are used up and interest income falls. The purpose of this indicator is to show the potential annual impact on a Band D Council Tax bill of the proposed Capital Programme for 2017/18 onwards.

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
£000s	£000s	£000s	£000s	£000s	£000s	£000s
£1.57	£1.68	£2.82	£3.95	£4.94	£2.09	£2.18

3) Approved Capital Expenditure

The Capital Expenditure estimates are summarised below. The estimates come from approved schemes in the Capital Budget, which is to be agreed by Council in February 2017.

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
£000s	£000s	£000s	£000s	£000s	£000s	£000s
1,393	2,227	4,183	1,800	1,800	1,500	1,500

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4) The Capital Financing Requirement

The Capital Financing Requirement (CFR) is used to assist in deciding whether capital expenditure is affordable, by measuring the underlying need to borrow. The indicator is calculated by matching fixed assets and projected capital expenditure to capital resources applied. The difference between the two, if positive, represents unfinanced capital expenditure to be financed by borrowing. The definition of unfinanced capital expenditure includes finance leases and PFI arrangements. Long Term borrowing should not exceed the CFR.

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
£000s	£000s	£000s	£000s	£000s	£000s	£000s
10,500	9,100	19,500	29,900	40,200	49,500	58,700

The Capital Financing Requirement (CFR) increases significantly in the next five years as a result of investment property purchases.

5) Authorised Limit for External Debt

To ensure good cashflow management, there is occasionally a need to borrow in the short term. Authority for any such borrowing is delegated to the S151 Officer. There are some circumstances where long term borrowing to support the Capital Programme is required to finance major capital projects or investment property purchases. The long term limits set in this report are based on the projected Capital Financing requirement over the period of the Medium Term strategy, and will be the maximum permissible amount of borrowing.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Authorised limit - borrowing	10,000	10,000	19,500	29,900	40,200	49,500	58,700
Authorised limit - long term liabilities	500	500	500	500	500	500	500

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TREASURY MANAGEMENT INDICATORS

1) Operational Boundary for External Debt

The purpose of this indicator is to serve as a warning that the authorised limit for external debt is close. It has been set at £200,000 below the authorised limit.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Operational boundary for external debt	8,000	8,000	19,300	29,700	40,000	49,300	58,500
Operational boundary - long term liabilities	300	300	300	300	300	300	300

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2) Interest Rate Exposures

Setting upper limits for variable and fixed interest rates provides a range in which the authority manages exposure to fixed and variable interest rates. Although fixed rates bring security to long term returns, variable rate investments can give the flexibility to maximise returns when interest rates are expected to increase. The indicators set will allow this flexibility.

Upper Limit for Fixed Rate Exposure

2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
100%	100%	100%	100%	100%	100%	100%

Upper Limit for Variable Rate Exposure

2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
100%	100%	100%	100%	100%	100%	100%

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Schedule 3 - Borrowing and Lending List 2017/18

Sector Credit Rating	Institution	Maximum duration	Maximum amount (applies to group as well as individually)
	RBS Group		
Green	Royal Bank of Scotland	100 Days	Lower of £3 million or half of total investments
Green	National Westminster Bank	100 Days	Lower of £3 million or half of total investments
	Lloyds Group		
Red	Bank of Scotland	6 months	Lower of £5 million or half of total investments
Red	Lloyds Bank	6 months	Lower of £5 million or half of total investments
	Other Institutions		
Red	HSBC Bank	6 months	Lower of £5 million or half of total investments
Red	Standard Chartered Bank	6 months	Lower of £5 million or half of total investments
Red	Barclays	6 months	Lower of £5 million or half of total investments
Green	Santander	100 Days	Lower of £3 million or half of total investments
Blue	Close Brothers	364 Days	Lower of £5 million or half of total investments
	Building Societies		
Green	Nationwide Building Society	100 days	Lower of £3 million or half of total investments
Red	Coventry Building Society	6 months	Lower of £5 million or half of total investments
Red	Leeds Building Society	6 months	Lower of £5 million or half of total investments
Green	Abbey National Treasury Services	100 Days	Lower of £3 million or half of total investments
Red	Clydesdale Bank	6 months	Lower of £5 million or half of total investments
Green	Co-operative Bank	100 Days	Lower of £3 million or half of total investments
Blue	Goldman Sachs International Bank	364 Days	Lower of £5 million or half of total investments
Blue	UBS	364 Days	Lower of £5 million or half of total investments
Red	Nottingham	6 months	Lower of £5 million or half of total investments
Blue	Principality	364 Days	Lower of £5 million or half of total investments
Green	Skipton	100 Days	Lower of £3 million or half of total investments
Blue	West Bromwich	364 Days	Lower of £5 million or half of total investments
Blue	Yorkshire	364 Days	Lower of £5 million or half of total investments

Supplementary to the above, investments may be placed under the following criteria:

NatWest Call Account - Up to £5 million may be invested in the National Westminster SIBA account subject to the group maximum and the 50% rule (BLUE rated)

Central Government - Unlimited investments may be placed in the government's Debt Management Office

Local Authorities - Up to £5 million may be invested with any other Local Authority subject to the group maximum and 50% rule (assuming a RED rating for all LAs)

NO INVESTMENT IS CURRENTLY UNDERTAKEN WITH FOREIGN BANKS.

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Schedule 4 – Minimum Revenue Provision Policy 2017/18

MRP on Finance Leased assets prior to 2017/18

The Council holds assets which are financed through a Finance Lease, as defined by International Financial Reporting standards. Where assets are financed in this way, MRP is charged over the life of the asset or, where this is not practical, over the life of the lease.

Prudential Code debt incurred prior to the year 2017/18 and onwards in relation to operational assets

The Council will calculate the amounts for existing external borrowing using the annuity method, and for existing internal borrowing using the Depreciation method, whereby provision is made in accordance with the standard rules for depreciation accounting, until provision made equals the original amount of debt

Prudential Code debt incurred in the year 2017/18 and onwards in relation to income generating property acquisitions

The Council will calculate the amounts for MRP for 2017/18 by applying a annuity formula incorporating a PWLB long-term borrowing rate, commensurate in duration to the estimated life of the item purchased/built to the apportionment of the value attributed to each financial year's opening CFR in relation to such income generating capital expenditure where the item purchased/built is expected to have a life of up to 50 years or more.

Prudential Code debt incurred in the year 2017/18 onwards in relation to Operational assets

The Council will apply the following methodology for MRP in relation to operational assets:

- Borrowing where capital receipts are expected to repay borrowing prior to the project becoming operational; MRP will be charged in the year in which capital receipts are received

- Annuity method Asset life - Annuity method, which works on the basis of a mortgage type repayment. (MRP Commencement on operational properties can be postponed until the financial year after asset becomes operational)

- Internal Borrowing; MRP repayment on internal borrowing will be offset against savings or income generated in the Income & Expenditure Account as a direct result of the investment. Repayment schedules will be confirmed prior to internal borrowing commencing.

Havant Borough Council

Schedule of Fees 2017/18

	Price 16/17 £	Price 17/18 £
Programmes		
Facilities		
Additional hire charge (Saturday)	34.15	34.15
Additional hire charge (Sunday)	50.75	50.75
Additional hire charge after 8.00pm (Mon-Fri)	34.15	34.15
Copying price - Per A0 / A2 page	0.10	0.10
Copying Price - Per A3 / A4 page	0.10	0.10
Data Protection Act Subject Access request	10.00	10.00
Hire of Council Chamber/Hurstwood Room - Community Group	40.00	40.00
Hire of Council Chamber/Hurstwood Room - Standard	50.00	50.00
Hire of Hollybank Room - Community Group	30.00	30.00
Hire of Hollybank Room - Standard	40.00	40.00
Hire of Newlease Room/Tournerbury Room - Community Group	25.00	25.00
Hire of Newlease Room/Tournerbury Room - Standard	30.00	30.00
Other rooms = on request from	10.00	10.00
Provision of tea and biscuits	-	-
Land Charges		
Note - certain Con 29 fees will be subject to VAT in 2017/18. Fees are currently under review and any revised fees will be agreed with the relevant portfolio holder.		
Combined LLC1 and CON 29R Search	340.00	340.00
Combined search and CON 29R	280.00	280.00
Each additional enquiry in applicant's own words	40.00	40.00
Each additional parcel	40.00	40.00
Each printed enquiry	30.00	30.00
Each printed enquiry 19, 20 or 22	60.00	60.00
First parcel of land - Commercial	267.00	267.00
First parcel of land - Residential	207.00	207.00
Numbering of new developments	-	270.00
Official Search of whole register	99.00	99.00
Property Name Additions/Amendments	-	400.00
Street Naming - Change of Address	203.00	203.00
Development		-
Building Control		-
Building controlfees are based on an hourly rate of:		£52.69 P/Hr