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Deputy Chief Executive

Agenda Item 6(iv)

Report to Executive Board

Date: 11th February 2015

Subject: TREASURY MANAGEMENT STRATEGY 2015/16

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	√ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	√ No
Is the decision eligible for Call-In? Except recommendation 6.2 to 6.5	√ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	√ No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Strategy for 2015/16, and also provides an update on the implementation of the 2014/15 strategy.

2. The Council's level of net external debt is anticipated to be £1,419m by 31/03/15, £24m below expectations in November 2014. This is as a result of capital schemes now progressing in later years. This coupled with lower borrowing costs have resulted in forecast debt savings of £2.1m in 2014/15, after finalising the minimum revenue provision (MRP) or statutory debt repayment requirement.

3. The 2015/16 strategy continues to fund the borrowing requirement from short term low interest rates, balances and reserves whilst still allowing to take advantage of longer term funding opportunities. Debt estimates are forecast to increase by £700k before the MRP adjustments are taken into account.

4. The Authorised Limits for both External Debt and Other Long Term Liabilities have been reviewed to reflect a review of the forecast debt and borrowing position together with the improvement in revenue balances and to accommodate the inclusion of the Residual Waste Incinerator PFI scheme. The operational boundaries have also been reviewed and still retain sufficient headroom to accommodate usual cashflow variances.

5. The report also includes an updated Treasury Management Policy Statement for approval. The main change reflects the option to invest monies on behalf of Council managed Charities and Trust Funds subject to individual Charity/Trust Fund Board approval.

6. Recommendations

That the Executive Board:

6.1 Approve the treasury strategy for 2015/16 as set out in Section 3.3 and note the review of the 2014/15 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6.2 The borrowing limits for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits. Both have been reduced for Borrowing whilst both have been increased for Other Long Term Liabilities reflecting new PFI schemes.

6.3 The treasury management indicators for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.5.

6.4 The investment limits for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.6.

6.5 The revised Treasury Management Policy Statement be adopted.

1 Purpose of this report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2015/16 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2014/15.

2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011), in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

3 Main Issues

3.1 Review of Strategy and Borrowing Limits 2014/15

3.1.1 The current debt forecasts are given in Table 1 below, which shows that net external borrowing is now expected to be £1,419m by the end of 2014/15. This is £24m less than expected in November. The lower borrowing requirement is due to schemes that will now progress in the following year. A capital programme update is included as a separate agenda item.

Table 1

ANALYSIS OF BORROWING 2014/15		2014/15 Feb 14 Report £m	2014/15 Nov 14 Report £m	2014/15 This Report £m
Net Borrowing at 1 April		1,490	1,393	**1,393**
New Borrowing for the Capital Programme – General Fund		119	110	**86**
New Borrowing for the Capital Programme – HRA		0	0	**0**
Debt redemption costs charged to Revenue (Incl HRA)		(48)	(47)	**(47)**
Reduced/(Increased) level of Revenue Balances		(28)	(13)	**(13)**
Net Borrowing at 31 March*		1,533	1,443	1,419
Capital Financing Requirement				**1,815**
* Comprised as follows				
Long term borrowing	Fixed	1,247	1,297	1,362
	Variable (less than 1 Year)	110	50	5
	New Borrowing	43	50	26
Short term Borrowing		157	63	61
Total External Borrowing		1,557	1,460	1,454
Less Investments		24	17	35
Net External Borrowing		**1,533**	**1,443**	**1,419**
% gross borrowing exposed to interest rate risk		20%	11%	6%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

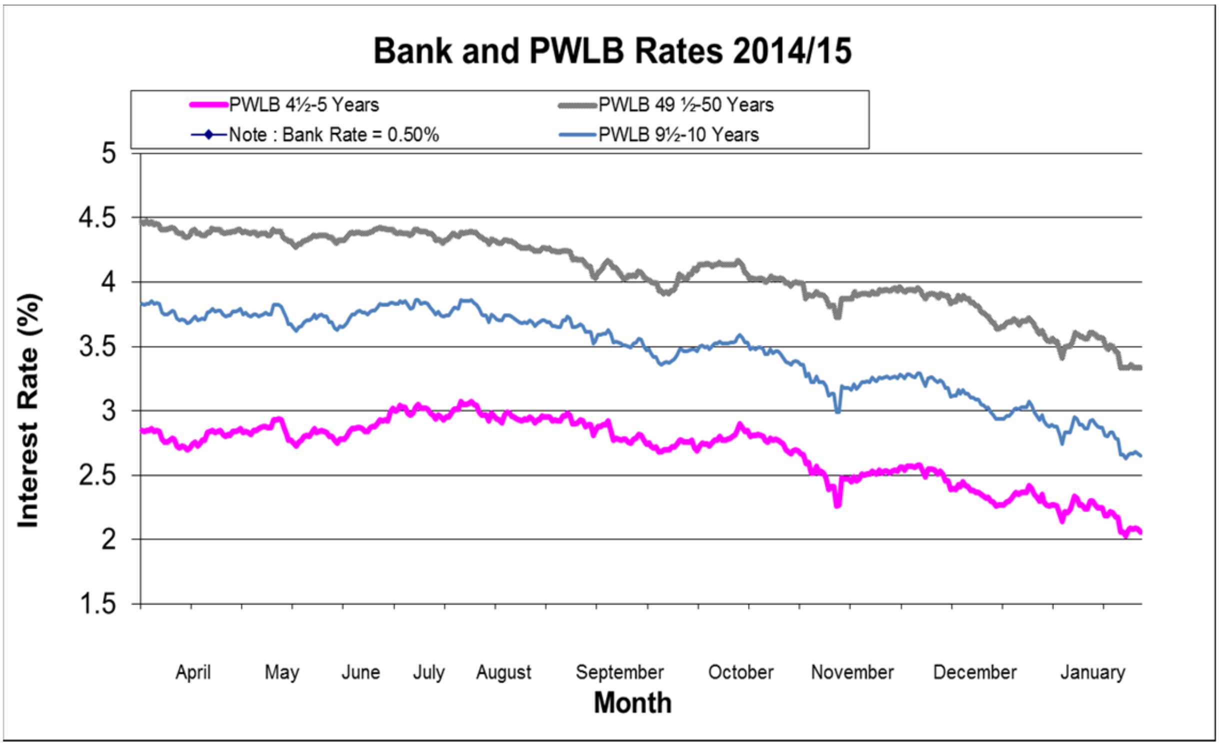
3.1.2 The UK economy grew by 0.7% in Quarter 3 2014, this growth has slowed but is expected to continue at these levels into 2015/16. In recent months oil prices have fallen substantially and are now around $50 per barrel. This has had a significant effect on CPI inflation in the UK which has fallen below 1% at the December reading. Inflation is expected to remain subdued and only increase slowly into 2015/16.

3.1.3 In the Eurozone, sovereign debt difficulties have subsided considerably in 2014. However, these remain in the background and the threat of deflation has recently come to the fore. Major concerns could return in respect of any countries that do not address fundamental issues of low growth, international competitiveness and the need for overdue reforms of the economy (as Ireland has done). Greece may exit the euro area after their elections and although not thought to be a directly destabilising event for the euro zone it may fan anti EU sentiment in other parts of the block.

3.1.4 US growth has been significant during 2014 and has recorded figures of 4.60% annualised in Quarter 2 and 5% in Quarter 3. The US Federal Reserve Bank has ceased its bond buying programme during the year and may now be the first major economy to increase base rates from current low levels. The US aside concerns persist regarding global growth with the World Bank recently reducing its forecast for 2015 from 3.40% to 3.00% and this together with concerns regarding deflation, the Ebola scare, Ukraine tensions and falling oil prices have pushed gilt yields down to historic lows as demonstrated by the chart below

3.1.5 The Council's treasury advisors' latest forecasts for Quarter 1, 2015 are that PWLB rates for 25 to 50 year borrowing will be around 3.40%, 10 year borrowing around 2.80% and 5 Year at 2.20%. Yields are expected to rise although the path and timing are very uncertain.

Chart 1



3.1.6 The 2014/15 borrowing strategy continues to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. The strategy is projected to generate savings of £2.1m after finalising the minimum revenue provision or statutory debt repayment requirement. The ability to take longer term funding is discussed in the strategy for 2015/16. Table 2 shows £20m of new loans were acquired.

Table 2

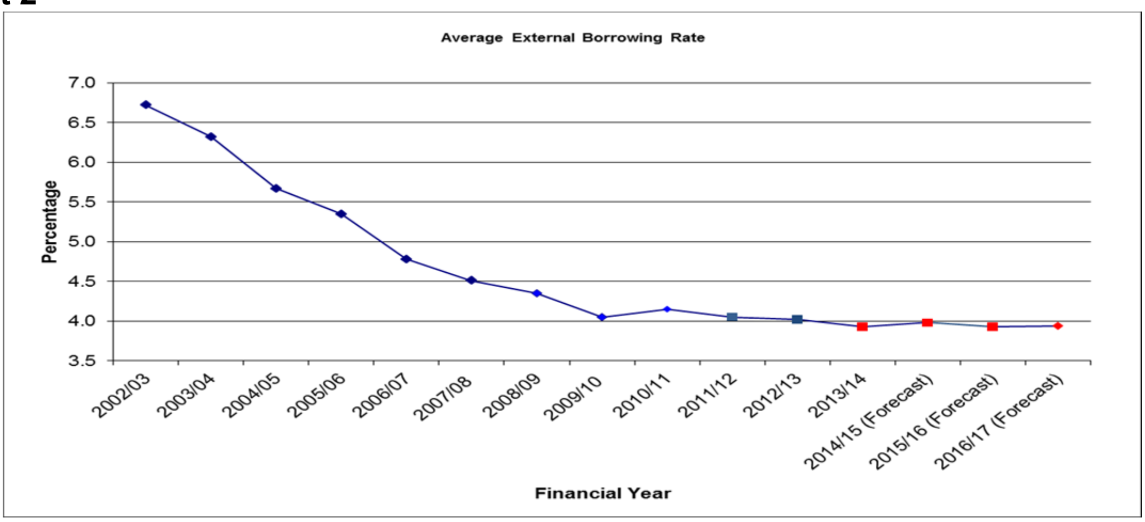
Loan repayments and borrowing 2014/2015							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
				21/01/2015	10	50	2.98
				21/01/2015	10	50	2.98
Sub Total	**0**				**20**		
Non PWLB Loans				Non PWLB Loans			
(Call date)							
Sub Total	**0**				**0**		
Total	**0**			**Total**	**20**		

3.1.7 The long term funding requirement is projected to be £458m at 31/3/2015. This is the difference between the Councils financing requirement (CFR) of £1.815bn and long term borrowing of £1.367bn. The levels of capital programme slippage, cash reserves, economic conditions and short term interest rates will continue to be monitored before additional monies are borrowed. Given that short term rates continue at historical lows the Council will continue to fund the remaining borrowing requirement, if required, at short term rates.

3.2 Interest Rate Performance

3.2.1 The average rate of interest paid on the Council's external debt for 2013/14 was 3.93% as reported in the Annual Treasury Management Report 2013/14 to Executive Board on 16th July 2014. This rate is forecast to rise slightly to 3.98% for 2014/15. Chart 2 shows how the average, external borrowing rate has fallen from 6.72% in 2002/03. The expectation is that the Councils average cost of borrowing will begin to rise as the cost of borrowing increases and short term funding is switched to more expensive longer term funding rates.

Chart 2



3.3 Strategy for 2015/16

3.3.1 Table 3 shows that net borrowing is expected to rise by £40m to £1,459m during the course of 2015/16. The Capital Programme report is presented elsewhere on this agenda.

Table 3

ANALYSIS OF BORROWING 2014/15 – 2017/18		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Net Borrowing at 1 April		1,393	1,419	1,459	1,559
New Borrowing for the Capital Programme – GF		86	102	146	114
New Borrowing for the Capital Programme - HRA		0	0	20	10
Debt redemption costs charged to Revenue(GF)		(47)	(48)	(48)	(52)
Reduced/(Increased) level of Revenue Balances		(13)	(14)	(18)	(18)
Net Borrowing at 31 March		1,419	1,459	1,559	1,613
* Comprised as follows					
Long term borrowing	Existing Fixed	1,362	1,262	1,243	1,268
	Existing Variable (Less than 1yr)	5	110	80	55
	New Borrowing	26	40	100	54
Short term Borrowing		61	57	146	246
Total External Borrowing		1,454	1,469	1,569	1,623
Less Investments		35	10	10	10
Net External Borrowing		1,419	1,459	1,559	1,613
% gross borrowing exposed to interest rate risk		6%	14%	21%	22%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

3.3.2 Growth in the UK has continued in the UK although concerns do exist as to its sustainability and a re-balancing towards business investment, manufacturing and exports and away from the consumer to maintain solid growth. CPI inflation has only recently fallen below wage growth inflation and this indicates that household disposable income remains under strain.

3.3.3 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- It is possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated.
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have fallen significantly during the back half of 2014 and at the time of writing show no sign of ceasing this downward trend; and
- If longer term borrowing is acquired before it is needed the result could be an increase in investments resulting in a revenue loss between borrowing costs and investment returns.

3.3.4 The projections for the first increase in the bank rate have moved from June 2016, as forecast in last year's strategy report to December 2015 as shown in Table 4. Whilst the 0.5% projection for the bank rate has moved nearer over the year it has recently begun to move further into the future again and economic headwinds strengthen and growth moderates. Forecast rates beyond 1 year have reduced significantly over the last few months as oil prices and inflation have reduced.

Table 4

	Bank Rate	**PWLB Borrowing Rates (including certainty rate adjustment)**			
		5 year	**10 Year**	**25 year**	**50 year**
Now	0.50	2.00	2.60	3.30	3.30
March 2015	0.50	2.20	2.80	3.40	3.40
June 2015	0.50	2.20	2.80	3.50	3.50
Sept 2015	0.50	2.30	3.00	3.70	3.70
Dec 2015	0.75	2.50	3.20	3.80	3.80
March 2016	0.75	2.60	3.30	4.00	4.00
June 2016	1.00	2.80	3.50	4.20	4.20
Sept 2016	1.00	2.90	3.60	4.30	4.30
Dec 2016	1.25	3.00	3.70	4.40	4.40
March 2017	1.25	3.20	3.80	4.50	4.50
June 2017	1.50	3.30	3.90	4.60	4.60
Sept 2017	1.75	3.40	4.00	4.70	4.70
Dec 2017	1.75	3.50	4.10	4.70	4.70
March 2018	2.00	3.60	4.20	4.80	4.80

Source Council's Treasury Advisors

3.3.5 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, but is being supported by reserves, balances and cash flow as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high. This strategy is expected to continue into 2015/16 as the outlook for the bank rate remains anchored at or around 0.5%.

3.3.6 The 2014/15 budget strategy assumed that no longer term borrowing was acquired. As rates have dropped further in 2014 and expectations of rate increases have been pushed back, it remains prudent to continue with this strategy in 2015/16, subject to taking advantage of market opportunities.

3.3.7 The strategy of defraying long term borrowing will increase the amount of debt that the Council is funding from short term loans and its balance sheet to a forecast £458m. This exposure is considered manageable given historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile.

3.3.8 The Council's current long term debt of £1.367bn has an average maturity of nearly 39 years if all its debt runs to maturity. Approximately 30% of the Councils debt has options for repayment, in the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to 22 years. This compares favourably with the average maturity of the UK debt portfolio of 15 years. The existing profile of the Council's debt provides considerable certainty of funding costs. Prudential indicator 16 in Appendix A shows the maturity profile of the Council's long term fixed debt and highlights that 56% or £707m matures in periods greater than 10 years.

3.3.9 The forecast path of longer term rates is clearly dependent upon how the economy performs both here and abroad. If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a sustained US recovery, improvement in world economic activity or increase in inflation risks, then the strategy will be re-appraised with the likely outcome that longer term funding will be acquired. At that point the prospect of a higher debt cost would be viewed against whether:

- the forecast capital borrowing requirement had reduced or slipped into the following years,
- the levels of reserves/ balances were forecast to increase or reduce.
- whether the council had received up front funding for capital schemes.

3.3.10 The debt budget is forecast to increase by £700k before the effects of MRP adjustments are taken into account. Forecasts for the debt budget beyond 2015/16 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. The debt budget is currently forecast to increase by a further £3.5m in 2016/17. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2015/16, before establishing the 2016/17 debt budget.

Table 5

	Average Interest Rate
2015/16	0.65%
2016/17	1.75%
2017/18	2.50%

3.3.11 These assumptions on borrowing rates have associated risks. For example in 2015/16, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by £235k.

3.4 Borrowing Limits for 2014/15, 2015/16, 2016/17 and 2017/18

3.4.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for on-going monitoring of external debt, and may be breached temporarily due to unusual cash flow movements. Appendix B shows that the Council has kept within the operational boundary and authorised limit in 2014/15.

3.4.2 The Deputy Chief Executive has delegated responsibility to make adjustments between the two separate limits for borrowing and other long term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt for the next three years.

3.4.3 After reviewing the forecast debt and borrowing position together with the improvement in revenue balances the Limit for borrowing is recommended to be reduced by £100m from £1,900m to £1,800m for the years 2014/15 to 2016/17 and that this new limit be rolled forward into 2017/18. The limit for Other Long Term Liabilities is recommended to remain the same in 2014/15 at £700m and to be increased from £700m to £780m to accommodate the inclusion of the Residual Waste Incinerator PFI scheme. As PFI liabilities subsequently decline the limit is then reduced to £760m in 2016/17 and £740m in 2017/18.

Recommended: Authorised Limits as follows

Authorised Limit	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	1,800	1,800	1,800	1,800
Other Long Term Liabilities	700	780	760	740
Total	**2,425**	**2,580**	**2,560**	**2,540**

3.4.4 In line with the above review of the authorised limits above it is proposed to amend the operational boundaries as detailed below. This limit will retain sufficient headroom to accommodate usual cashflow variances. These limit changes will reduce the limit for borrowing for years 2014/15 to 2016/17 from £1,760m to £1,600m in 2014/15, to £1,600m in 2015/16 and £1,650m in 2016/17. Further the limit for 2017/18 is recommended to be set at £1,750m. The limit for Other Long Term Liabilities is recommended to be remain the same for 2014/15 but to be increased to £760m in 2015/16 before being reduced to £740m in 2016/17 and £720m in 2016/17 and that the limit for 2017/18 is recommended to be set at £720m. As above, Other Long Term Liabilities limit is recommended to be increased to accommodate the inclusion of the residual waste incinerator PFI scheme.

Recommended: Operational Boundaries as follows

Operational Boundary	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	1,600	1,600	1,650	1,750
Other Long Term Liabilities	665	760	740	720
Total	**2,200**	**2,360**	**2,390**	**2,470**

3.5 Treasury Management Indicators

3.5.1 Appendix A highlights the borrowing limits and other prudential indicators

3.5.2 The first prudential indicator in respect of treasury management is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This was adopted by the Council at the Executive Board meeting on the 13th March 2003.

3.5.3 The Council is required to set an upper limit on its fixed interest rate exposures that represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that the limit of 115% remains unchanged and is rolled forward into 2016/17.

Recommended: Upper limit on fixed interest rate exposures for 2015/16, 2016/17 and 2017/18 of 115% (no change)

3.5.4 The Council is required to set an upper limit on its variable interest rate exposures that represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that the limit of 40% of debt remains unchanged and is rolled forward into 2016/17.

Recommended: Upper limit on variable interest rate exposures for 2015/16, 2016/17 and 2017/18 of 40% (no change)

3.5.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

<table>
<tr><th>Maturity structure of fixed rate borrowing</th><th>Lower Limit</th><th>Upper Limit</th></tr>
<tr><td>under 12 months</td><td>0%</td><td>15%</td></tr>
<tr><td>12 months and within 24 months</td><td>0%</td><td>20%</td></tr>
<tr><td>24 months and within 5 years</td><td>0%</td><td>35%</td></tr>
<tr><td>5 years and within 10 years</td><td>0%</td><td>40%</td></tr>
<tr><td>10 years and within 20 years</td><td rowspan="5">25%</td><td rowspan="5">90%</td></tr>
<tr><td>20 years and within 30 years</td></tr>
<tr><td>30 years and within 40 years</td></tr>
<tr><td>40 years and within 50 years</td></tr>
<tr><td>50 years and above</td></tr>
</table>

Recommended: Upper and Lower limits on fixed rate maturity structure remains unchanged as above.

3.6 Investment Strategy and Limits

3.6.1 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

3.6.2 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counter-parties.

3.6.3 The investment strategy only allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

3.6.4 Changes continue to be brought forward in the regulation and stability of the banking system within the UK, and worldwide. These changes are designed to enhance stability within the financial system and to remove the implicit need for government support of such institutions. This would be expected to have a downward effect on the ratings of these institutions by the 3 main credit rating agencies however the additional requirements to hold much larger capital buffers is a significant factor mitigating this expected effect. These changes are being monitored closely as is the effect on the credit list supplied by the Councils Treasury Advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings

3.6.5 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds which it has not utilized to date. However over the current year we have seen a substantial reduction in the rates offered on Call accounts by both the Councils bankers and by other banks offering similar products. This is thought to reflect the cost of carrying such cash on the balance sheet of these organisations under Basel III rules. As a result the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the utility of these funds will be undertaken for depositing short term cash balances.

3.6.6 The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below and roll the limit forward into 2017/8.

Recommended: Upper limit on sums invested for periods longer than 364 days (no change):

Total principal sum invested for a period longer than 364 days	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Upper limit	150	150	150	150

3.7 Treasury Management Policy Statement

3.7.1 The treasury management policy statement has been updated to reflect investments made on behalf of Council managed Charities and Trust Funds. The Council currently invests surplus balances on behalf of Council managed trust funds and Charities in the name of the Council and investments are within the Council's overall counterparty limits. To provide the Council and Charities/Trusts with a greater degree of flexibility the Council will have the option to invest monies on behalf of charities and trusts over and above the Council's own investment limits. This additional investment will be subject to individual Charity/Trust fund Board approval.

3.7.2 Investments made on behalf of Charities/Trust funds are subject to the Council's investment criteria unless there is specific Charity/Trust fund approval in place to relax the criteria.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report sets the treasury management strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality diversity cohesion and integration issues. An equality screening document is attached at Appendix C.

4.3 Council Policies and City Priorities

4.3.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Council's business plan.

4.4 Resources and Value for Money

4.4.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.4.2 The updated strategy 2014/15 is forecast to deliver savings of £2.1m against the budgeted position.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 6.2 to 6.5 are not subject to call in.

4.6 Risk Management

4.6.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group
- Quarterly strategy meetings with the Deputy Chief Executive and the Council's treasury advisors
- Regular market, economic and financial instrument updates and access to real time market information

5 Conclusions

5.1 The Council's level of external debt at 31st March 2015 is anticipated to be £1,419m, £24m lower than expected in November 2014, rising to £1,459m in 2015/16 and to £1,559m by 2016/17.

5.2 The interest cost of debt is budgeted to increase by £700k in 2015/16 before MRP adjustments are taken into accounts.

5.3 The uncertainty and risks around economic forecasts will result in further caution being adopted in the management of debt and investments and the opportunity to secure longer term debt at the appropriate time will be kept under review.

5.4 The Treasury Management Policy Statement has been updated to reflect investments made on behalf of Council managed Charities and Trust Funds.

6 Recommendations

That the Executive Board:

6.1 Approve the initial treasury strategy for 2015/16 as set out in Section 3.3 and note the review of the 2014/15 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6.2 The borrowing limits for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits. Both have been reduced for Borrowing whilst both have been increased for Other Long Term Liabilities reflecting new PFI schemes.

6.3 The treasury management indicators for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.5.

6.4 The investment limits for 2014/15, 2015/16, 2016/17 and 2017/18 be set as detailed in Section 3.6.

6.5 The revised Treasury Management Policy Statement be adopted.

7 Background documents [1]

None

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[1] The backgound documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix A

Leeds City Council - Prudential Indicators 2014/15- 2017/18

No.	PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1	General Fund - Excluding DSG (Note1)	12.69%	14.29%	15.68%	16.61%
2	HRA	12.61%	11.83%	11.06%	11.38%
	Estimates of the Incremental Impact of new capital investment decisions	£ . P	£ . P	£ . P	£ . P
3	increase in council tax B7(band D, per annum) (Note 2)	11.34	51.36	96.55	133.45
4	increase in housing rent per week	0.00	0.00	0.01	0.43
		£'000	**£'000**	**£'000**	**£'000**
5	**Net external borrowing requirement (Net Debt and CFR)**	1,419,000	1,459,000	1,559,000	1,613,000
	The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	OK	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**	**£'000**
6	General Fund	205,615	387,543	230,474	155,900
7	HRA	125,530	178,081	137,498	96,092
	TOTAL	331,145	565,624	367,972	251,992
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	General Fund	1,576,325	1,760,255	1,842,728	1,889,864
9	HRA	787,791	818,466	838,526	838,935
	TOTAL	2,364,116	2,578,721	2,681,254	2,728,799
9a	**Limit of HRA Indebtedness as implemented under self financing**	721,327	721,327	721,327	721,327

No.	PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 5)**				
	borrowing	1,800,000	1,800,000	1,800,000	1,800,000
	other long term liabilities	700,000	780,000	760,000	740,000
	TOTAL	2,500,000	2,580,000	2,560,000	2,540,000
11	**Operational boundary - (Note 5)**				
	borrowing	1,600,000	1,600,000	1,650,000	1,750,000
	other long term liabilities	665,000	760,000	740,000	720,000
	TOTAL	2,265,000	2,360,000	2,390,000	2,470,000
14	**Upper limit for fixed interest rate exposure**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 5)**	150,000	150,000	150,000	150,000
	(per maturity date)				
18	**Net Debt as a percentage of Gross debt**	97.59%	99.32%	99.36%	99.38%

16	**Maturity structure of fixed rate borrowing 2014/15**	Lower Limit	Upper Limit	Projected 31/03/2015	
	under 12 months	0%	15%	1%	
	12 months and within 24 months	0%	20%	8%	
	24 months and within 5 years	0%	35%	24%	
	5 years and within 10 years	0%	40%	11%	
	10 years and within 20 years	25%	90%	4%	56%
	20 years and within 30 years			0%	
	30 years and within 40 years			24%	
	40 years and within 50 years			29%	
				100%	

Notes.

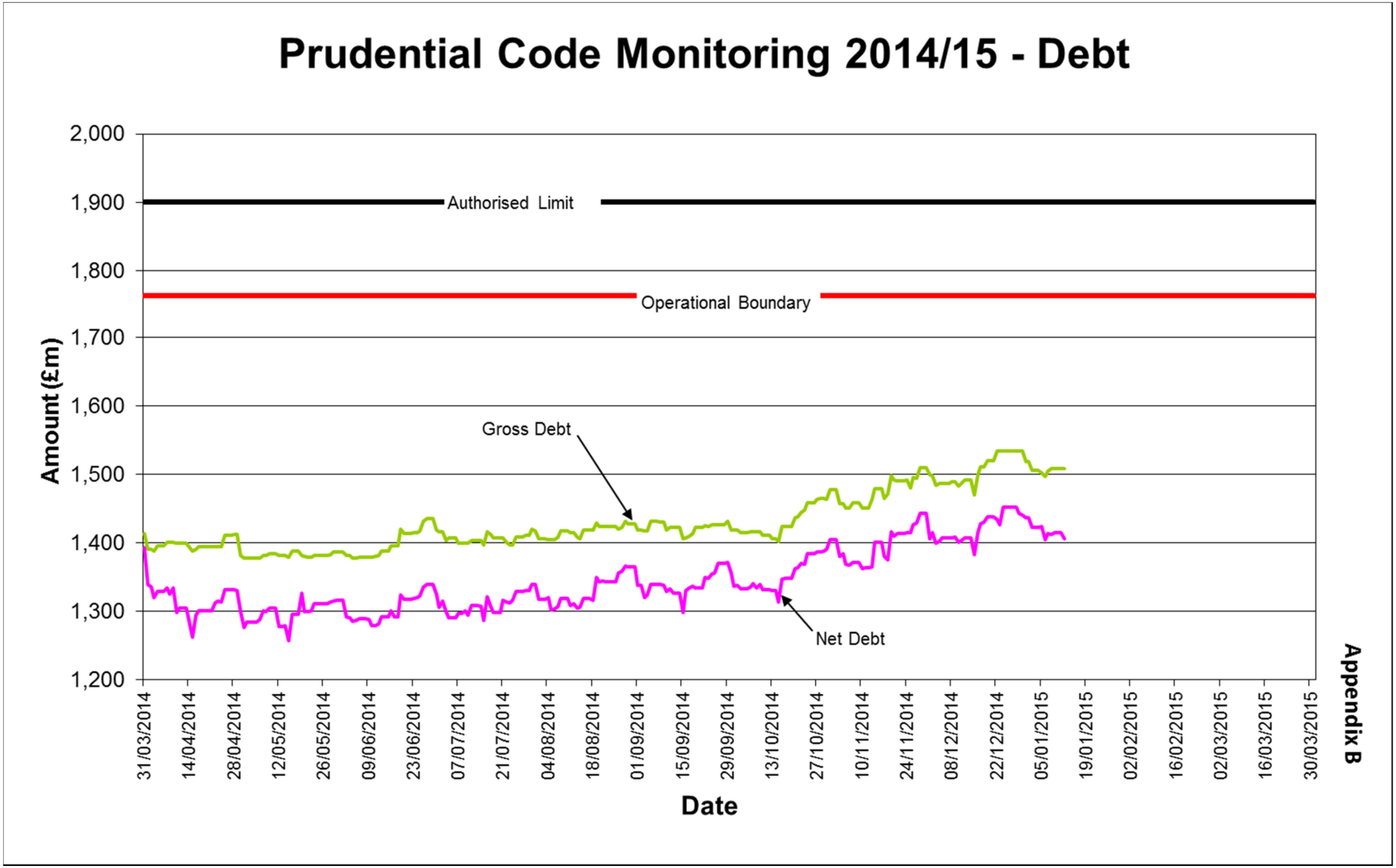
1 **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.**

2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

3 **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**

5 **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, and the revised code in February 2010 and 2012**



Prudential Code Monitoring 2014/15 - Debt
Amount (£m)
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
31/03/2014
14/04/2014
28/04/2014
12/05/2014
26/05/2014
09/06/2014
23/06/2014
07/07/2014
21/07/2014
04/08/2014
18/08/2014
01/09/2014
15/09/2014
29/09/2014
13/10/2014
27/10/2014
10/11/2014
24/11/2014
08/12/2014
22/12/2014
05/01/2015
19/01/2015
02/02/2015
16/02/2015
02/03/2015
16/03/2015
30/03/2015
Date
Appendix B

Appendix C
Equality, Diversity, Cohesion and Integration Screening

Leeds CITY COUNCIL

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision.** Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

Directorate: Resources	**Service area: Audit and Investment**
Lead person: Bhupinder Chana	**Contact number: 51332**

1. Title: Treasury Management Strategy 2015/16
Is this a: [X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other** **If other, please specify**

2. Please provide a brief description of what you are screening
The report sets out the treasury management strategy for 2015/16. The strategy outlines the approach to managing the Council's borrowing requirements in the light of its capital programme, cash balances and reserves and economic conditions including forecasts of interest rates.

3. **Relevance to equality, diversity, cohesion and integration**		
All the council's strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration. The following questions will help you to identify how relevant your proposals are. When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being.		
Questions	**Yes**	**No**
Is there an existing or likely differential impact for the different equality characteristics?		X
Have there been or likely to be any public concerns about the policy or proposal?		X
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?		X
Could the proposal affect our workforce or employment practices?		X
Does the proposal involve or will it have an impact on • Eliminating unlawful discrimination, victimisation and harassment • Advancing equality of opportunity • Fostering good relations		 X X X

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4.**
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5.**

4. Considering the impact on equality, diversity, cohesion and integration
If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment. Please provide specific details for all three areas below (use the prompts for guidance).
• **How have you considered equality, diversity, cohesion and integration?** (**think about** the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)
• **Key findings** **(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)
• **Actions** **(think about** how you will promote positive impact and remove/ reduce negative impact)

5. If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment.**	
Date to scope and plan your impact assessment:	
Date to complete your impact assessment	
Lead person for your impact assessment (Include name and job title)	

6. Governance, ownership and approval Please state here who has approved the actions and outcomes of the screening		
Name	**Job title**	**Date**
Bhupinder Chana	Principal Financial Manager Capital & Treasury Management	29th January 2015
Date screening completed		29th January 2015

7. Publishing	
Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board**, **Full Council, Key Delegated Decisions** or a **Significant Operational Decision.** A copy of this equality screening should be attached as an appendix to the decision making report: • Governance Services will publish those relating to Executive Board and Full Council. • The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions. • A copy of all other equality screenings that are not to be published should be sent to equalityteam@leeds.gov.uk for record. Complete the appropriate section below with the date the report and attached screening was sent:	
For Executive Board or Full Council – sent to **Governance Services**	Date sent:
For Delegated Decisions or Significant Operational Decisions – sent to appropriate **Directorate**	Date sent:
All other decisions – sent to equalityteam@leeds.gov.uk	Date sent: