Exe 150108
**Item 12**

## Draft Capital Programme

**EXECUTIVE MEMBER:** Cllr. Allan Holliday: Deputy Leader of the Council
**LEAD OFFICER:** Georgina Ayling: Head of Finance and Business Development
**REPORT AUTHOR:** Carole Carre: Accountancy Services Project Manager


**Summary and Recommendation:**

The purpose of this report is to recommend to Executive to agree the proposed 2008/09 and 3 year rolling capital programme.

If approved, this capital investment will assist in ensuring the Council delivers its front line services and meet its key objectives and priorities over the next 3 years as set out in its corporate plan


### 1. INTRODUCTION

1.1 Each year the Council updates its three year rolling capital programme for the purchase of tangible fixed assets, bringing them into use and enhancing them as defined in accounting standards. The three year capital programme totals £6.0m and is to be funded from capital grants of £0.8m, receipts from the sale of fixed assets of £3.3m, and other external funders of £1.8m. There is no external borrowing requirement as there are sufficient capital receipts to fund the programme in the medium term.

1.2 The current capital programme covers a wide range of major investment in; information and communications technology (£185k), public buildings (£215k), council owned property (£890k), various leisure and environmental projects (£380k), the Beacon major refurbishment (£2.1m), community and renewal (£398k), coastal fringe (£1.4m), and various economic and tourism projects (£400k).

1.3 Because of the nature and size of the projects mentioned above, these are not planned to be fully completed by the end of 2007/08 and will be rolled over where applicable into the following financial year.

1.4 The capital programme of £0.8m for the forthcoming financial year is approved as part of the budget setting process. This is to be fully financed from usable capital receipts.

1.5 It is anticipated that usable capital receipts at the commencement of 2008/09 will be £3.5m increasing to £4.8m at financial year end.

1.6 In the longer term, and based on future capital expenditure and receipts, it is estimated that usable capital receipts will show a balance in the region of £5.7m.

1.7 It is not anticipated that the Council will need to arrange any external borrowing to support the short to medium term capital programme, and will utilise usable capital receipts available to it.

1.8 In addition to the capital programme and operational revenue budget the Council's maintains a three year revenue programme of £5.4m for major projects and schemes for which the Council acts as the accountable body £3.9m and also for the element of private sector housing renovation and disabled facilities grant which are government funded by £1.5m.

1.9 The Capital Strategy is attached at Appendix 1. Appendix 2 contains high level forecasts of capital spend and funding for the period from 2007/08 (forecast outturn), to 2011/12, (proposed programme).

## 2. PROPOSALS

2.1 The medium term capital programme allows for £1.3m for capital based work on Council owned public buildings. This is programmed is based on condition surveys carried out which highlights the backlog of work required to be carried out.

2.2 To ensure that the Council priorities are achieved, the transformation enabling budget has been re-engineered. Planned capital based investment in excess of £700k over the next two financial years has been included in the capital programme.

2.3 Capital receipts in the medium term are estimated in excess of £6.2m. This is largely due to land sales at Lingla Bank, Old Gym Site at Kells, Richmond Self Build, and Harras Moor Whitehaven

2.3 The Capital Strategy will be incorporated into the Medium Term Financial Strategy.

## 3. FINANCIAL AND HUMAN RESOURCES IMPLICATIONS (INCLUDING SOURCES OF FINANCE)

3.1 The 2008/09 capital programme proposal of £759k is to be fully financed from available capital receipts with no implication on external borrowing.

## 4. IMPACT ON CORPORATE PLAN

4.1 By ensuring that the Council utilises its resources effectively, the Capital Strategy supports delivery of the Corporate Plan.

**List of Appendices**

Appendix 1 : Draft Capital Strategy
Appendix 2 : Draft Capital Spend and Funding Summary

**List of Background Documents:** Capital Programme budget build

**List of Consultees:** Resource Steering Group, Corporate Team, Budget Managers

## CHECKLIST FOR DEALING WITH KEY ISSUES

Please confirm against the issue if the key issues below have been addressed. This can be by either a short narrative or quoting the paragraph number in the report in which it has been covered.

| | |
|---|---|
| Impact on Crime and Disorder | None |
| Impact on Sustainability | None |
| Impact on Rural Proofing | None |
| Health and Safety Implications | None |
| Impact on Equality and Diversity Issues | None |
| Children and Young Persons Implications | None |
| Human Rights Act Implications | None |
| Section 105 Officer Comments | The accountants have quality assured the capital programme estimates for the next 3 years and the S151 Officer gives a positive assurance that the estimates are robust and sustainable over the 3 year timeframe |
| Monitoring Officer Comments | |

Appendix 1

## Copeland Borough Council
## Capital Strategy

The Council's Capital Strategy determines annually:-

- how it's 3 year rolling Capital Investment Programme is agreed, and
- how the Programme is to be funded

Annex 1 shows the forecast outturn for the 2007/08 Capital Programme and forecasts for the period 2008/09 to 2010/11.

The Capital Programme is funded from a number of sources:-

### *Government and Other Grants*

Wherever possible external grant funding is accessed to support the Council's capital programme. Grants are usually allocated for specific projects. The Council receives and administers grants for its own capital programme, but also administers grants (as the Accountable Body) on behalf of other bodies and partnerships. External grants are a major source of investment funding for regeneration programmes, and help the Council to bring in investment into the area.

### *Usable Capital Receipts*

The Council receives funds from the sale of land and other assets. Money received from sales may not be used for revenue purposes, but can be used without restriction to support capital investment. The Council currently uses funds from this source in preference to taking out further borrowings under the prudential borrowing code.

Appendix 2

## Capital Programme Investment and Funding Forecasts 2007/8 to 2010/11



| £'000 | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 |
|---|---|---|---|---|---|
| **Total Capital Programme** | **£5,973** | **£759** | **£460** | **£237** | **£189** |
| **Funding** | | | | | |
| CBC Unapplied Capital Grants | 824 | 0 | 0 | 0 | 0 |
| CBC Usable Capital Receipts | 3,336 | 759 | 460 | 237 | 189 |
| Other External – Government Grants | 1,813 | 0 | 0 | 0 | 0 |
| Earmarked Reserves | 0 | 0 | 0 | 0 | 0 |
| **Total Funding** | **£5,973** | **£759** | **£460** | **£237** | **£189** |
| **Capital Receipts Unapplied** | | | | | |
| **Opening Balance** | **£5,363** | **£3,502** | **£4,818** | **£6,123** | **£5,886** |
| Transfer to CFA | (900) | 0 | 0 | 0 | 0 |
| Receipts in Year | 2,375 | 2,075 | 1,765 | 0 | 0 |
| Utilised in Year | (3,336) | (759) | (460) | (237) | (189) |
| **Balance Carried Forward** | **£3,502** | **£4,818** | **£6,123** | **£5,886** | **£5,697** |

# COPELAND BOROUGH COUNCIL'S TREASURY MANAGEMENT STRATEGY AND REPORT ON THE OPERATION AND MONITORING OF THE TREASURY MANAGEMENT SERVICE

**EXECUTIVE MEMBER:** Councillor Elaine Woodburn

**LEAD OFFICER:** Georgina Ayling

**REPORT AUTHOR:** Anne Fisher: Senior Accountancy Officer; Carole Carre: Accountancy Services Project Manager

**Summary and Recommendation:**

That the Executive be recommended to
a) Note the report
b) Approve the revised prudential indicators and limits; and
c) Approve the updated Treasury Management Strategy contained at Annex B

## 1. BACKGROUND

1.1 The Prudential Code for Capital Finance in Local Authorities began on 1st April 2004 and introduced a greater freedom for the Council's capital expenditure. Part of the requirements of the Code is for reporting procedures to be implemented to monitor the progress and status of the capital expenditure plans. This report fulfils that requirement and shows the status of the Prudential Indicators as at 30th September 2007. The indicators were first reported to Full Council on 27th February 2007.

1.2 The Council's financial regulations require a Treasury Management Strategy covering the future three financial years to be reported to Council on an annual basis.

1.3 This report combines those requirements. The main body of the report details the actual prudential indicators for the 2006/07 financial year, and updates forecasts for the 2007/08 outturn and 2008/09 and 2009/10. Appendixes B and C contain the Council's updated Treasury Management Strategy and supporting information, and covers the period from 2008/09 to 2010/11. The Treasury Management Strategy and Prudential Indicators will, if approved, be incorporated into the Medium Term Financial Strategy.

## 2. CAPITAL EXPENDITURE AND FINANCING OF THE EXPENDITURE

2.1 The table below shows the Prudential Indicator (PI) which highlights the actual 2006/07 capital expenditure position and the updated estimated capital programme for 2007/08 to 2009/10. The financing of the capital programme is also shown.

| | 2006-07 Actual £000 | 2007/08 Original £000 | 2007-08 Revised £000 | 2008-09 Revised £000 | 2009-10 Revised £000 |
|---|---|---|---|---|---|
| **Capital Expenditure** | | | | | |
| Total | 4,160 | 2,923 | 5,973 | 759 | 460 |

| | | | | | |
|---|---|---|---|---|---|
| Expenditure | | | | | |
| | | | | | |
| **Financed By:** | | | | | |
| | | | | | |
| Capital Receipts | 192 | 800 | 3,336 | 759 | 460 |
| Capital Grants | 3,348 | 1,511 | 2,637 | | |
| Capital Reserves | | | | | |
| Revenue | 620 | 612 | | | |
| | | | | | |
| **Net Capital Requirement** | **0** | **0** | **0** | **0** | **0** |

## 3. THE COUNCIL'S BORROWING NEED (THE CAPITAL FINANCING REQUIREMENT)

3.1 The table below shows the Council's Capital Financing Requirement, which is the Council's underlying external indebtedness for a capital purpose. It flows directly from the capital expenditure plans above, and will also be adjusted for annual revenue charge for debt repayment (the Minimum Revenue Provision). The Council currently and for the foreseeable future has no Minimum Revenue Provision requirement, and therefore no contribution is required from the revenue budget to cover these costs.

| | **2006-07 Actual £'000** | **2007-08 Original £'000** | **2007-08 Revised £'000** | **2008-09 Revised £'000** | **2009-10 Revised £'000** |
|---|---|---|---|---|---|
| **Capital Financing Requirement – CFR** | | | | | |
| Total CFR | 0 | 0 | 0 | 0 | 0 |
| Net Movement in CFR | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| **PI – External Debt** | | | | | |
| Borrowing | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Other long term liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Debt 31 March | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |

## 4. LIMITS TO BORROWING ACTIVITY

4.1 The first key control over the Council's activity is a Prudential Indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for 2007/08 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

| | 2006-07 Actual £'000 | 2007-08 Original £'000 | 2007-08 Revised £'000 | 2008-09 Revised £'000 | 2009-10 Revised £'000 |
|---|---|---|---|---|---|
| Gross Borrowing | 5,000, | 5,000 | 5,000 | 5,000 | 5,000 |
| Investments | -19,113 | -18,000 | -19,966 | -19,901 | -18,694 |
| Net Borrowing | -14,113 | -13,000 | -13,000 | -13,000 | -13,000 |
| CFR | 0 | 0 | 0 | 0 | 0 |

4.2 The Head of Finance and Business Development reports that the Council complied with this prudential indicator in 2006-07, and no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the Budget Report.

4.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

4.4 **The authorised limit** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

4.5 **The operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. CIPFA anticipate that this should act as an indicator to ensure the authorised limit is not breached.

| Authorised limit for external debt | 2007-08 Original £'000 | 2007-08 Revised £'000 | 2008-09 Revised £'000 | 2009-10 Revised £'000 |
|---|---|---|---|---|
| Borrowing | 5,000 | 5,000 | 5,000 | 5,000 |
| Temp Rev and Capital estimate | 4,000 | 4,000 | 4,000 | 4,000 |
| **TOTAL** | **9,000** | **9,000** | **9,000** | **9,000** |

| Operational boundary for external debt | 2006-07 Revised £'000 | 2007-08 Estimated £'000 | 2008-09 Estimated £'000 | 2009-10 Estimated £'000 |
|---|---|---|---|---|
| Borrowing | 5,000 | 5,000 | 5,000 | 5,000 |
| | | | | |
| **TOTAL** | **5,000** | **5,000** | **5,000** | **5,000** |

## 5. AFFORDABILITY PRUDENTIAL INDICATORS

5.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans on the overall Council's finances.

5.2 **Actual and estimate of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing cost include current commitments and the proposals from the budget report.

| Ratio of Financing Costs to Net Revenue Stream | 2006-07 Actual | 2007-08 Original | 2007-08 Revised | 2008-09 Revised | 2009-10 Revised |
|---|---|---|---|---|---|
| General Fund | -7% | -7% | -7% | -7% | -7% |

5.3 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans. They are required to be approved annually and will be reported to Full Council at the same time as the next Budget and Council Tax Setting Report.

## 6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1 The first treasury indicator requires the adoption of the CIPFA Code of Practice on Treasury Management. This Council adopted that Code on 14th March 2002.

6.2 The Upper Limits on Variable Rate Exposure indicator is the maximum limit for variable interest rates based upon the debt position net of investments.

6.3 The Upper Limits on Fixed Rate Exposure is similar to the indicator above, but covers maximum limit on fixed interest rates.

| | 2006-07 Original £'000 | 2007-08 Revised £'000 | 2008-09 Revised £'000 | 2009-10 Revised £'000 |
|---|---|---|---|---|
| **Prudential indicator limits based on debt only** | | | | |
| Limits on fixed interest rates | £5,000 | £5,000 | £5,000 | £5,000 |
| Limits on variable rates | £0 | £0 | £0 | £0 |

## 7. MATURITY STRUCTURES OF BORROWING

7.1 These gross limits are set to reduce the Council's expose to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

| Maturity Structure of Fixed Borrowing | 2007/08 Revised Lower Limits | 2007/08 Revised Upper Limits |
|---|---|---|
| Under 12 Months | 0% | 50% |
| 12 Months to 2 years | 0% | 0% |
| 2 years to 5 years | 0% | 0% |
| 5 years to 10 years | 0% | 0% |
| 10 years and above | 0% | 100% |

## 8. TREASURY MANAGEMENT IN 2007-08

8.1 The Council still has the one remaining Market Loan in its debt portfolio, of £5 million. We continually assess the position of this loan with our Treasury Consultants, Butlers, to see whether we are securing the best terms for the Council. At the current time, the advice is to leave this loan in its present form.

8.2 In March 2007 £11,740,000 was repaid to the Council from INVESTEC external fund managers. This has increased the Council's cash balances.

8.3 During the year interest rates have risen by 0.75% above our budget estimates. This has meant that the actual interest we are receiving on our investments is over and above our estimates.

8.4 Pressures on the budget for next year and beyond, now mean that we must strive to maximize the level of interest that we can earn and therefore we will continue to work closely with Butlers to ensure that our counter-party list (ie those financial institution/ organisations that we can place money with) is secure and enables us to secure the best return for the Council.

| | | |
|---|---|---|
| List of Appendices – | Appendix A | Investments |
| | Appendix B | Treasury Management Strategy (Updated) |
| | Appendix C | Further TMS Details |

List of Background documents – Treasury Files

List of consultees: Corporate Team, Accountants, Leader

Appendix A

**TEMPORARY INVESTMENTS AT 31/03/06**

| | AMOUNT | PERIOD OF LOAN | VALUE DATE | MATURITY DATE | RATE | BASE RATE |
|---|---|---|---|---|---|---|
| BANK OF SCOTLAND | 500,000 | CALL | | | 4.75% | |
| NATWEST | 3,000,000 | CALL | | | 4.75% | |
| NOTTINGHAM BS | 1,000,000 | 12 MONTH | 12/06/06 | 11/06/07 | 4.87% | |
| HINKLEY & RUGBY BS | 1,000,000 | 12 MONTH | 19/06/06 | 18/09/07 | 4.97% | |
| KENT RELIANCE BS | 500,000 | 10 WEEKS | 01/02/07 | 12/04/07 | 5.46% | |
| HINKLEY & RUGBY BS | 1,100,000 | 51 WEEKS | 27/02/07 | 20/02/08 | 5.72% | |
| LEEK UNITED BS | 3,000,000 | 12 MONTH | 19/03/07 | 17/03/08 | 5.72% | |
| HINKLEY & RUGBY BS | 2,000,000 | 24 MONTH | 19/03/07 | 19/03/09 | 5.84% | |
| CHELSEA BS | 1,000,000 | 24 WEEKS | 19/03/07 | 19/03/09 | 5.84% | |
| MANCHESTER BS | 1,000,000 | 12 MONTHS | 19/03/07 | 17/03/08 | 5.70% | |
| MANCHESTER BS | 2,000,000 | 41 WEEKS | 19/03/07 | 02/01/08 | 5.66% | |
| NORTHERN ROCK | 3,000,000 | 24 MONTHS | 20/03/07 | 20/03/09 | 5.81% | |
| **TOTAL** | **19,100,000** | | | | | |

# TREASURY MANAGEMENT STRATEGY 2008/09 – 2010/11

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in the main report consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process, which ensures the Councils meets the balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy, which require approval.

2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 14th March 2002, and as a result adopted a Treasury Management Policy Statement (24th February 2004). This adoption meets the requirements of the first of the treasury prudential indicators.

3. Financial Regulations require an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.

4. This strategy covers:

    - The Council's debt and investment projections
    - The expected movement in interest rates
    - The Council's borrowing and investment strategies
    - Treasury performance indicators
    - Specific limits on treasury activities
    - Any local treasury issues

5. The borrowing requirement comprises the expected movement in the CFR and any maturing debt, which will need to be re-financed. There is expected to be no change to the current outstanding debt level of £5,000,000. As detailed in Appendix C, funds available for investment and to support daily cash flow and working capital requirements are predicted to reduce from an estimated £20,500,000 in 2008/9 to £18,500,000 in 2010/11.

6. Interest rate uncertainty is set to persist in the year ahead with the threat of higher inflation, increases in oil and fuel prices, the cooling of the housing market, and the current credit squeeze contributing to uncertainty.

7. The Bank of England has noted that despite indications that the economy may contract, the risks of inflation still remain, and many of the current pressures on prices are externally generated and therefore will not respond to interest rate changes.

8. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

9. The Head of Finance and Business Development is not intending to take out any additional borrowing for the foreseeable future.

10. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

   - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

   - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-specified investment sections below.

11. All investments will be made in accordance with the Council's investment policies and prevailing legislation and regulations.

12. Expectations on shorter-term interest rates on which investment decisions are based, show a likelihood of peaking at 5.25% in early 2008, falling to 4.8 by the end of the year, and currently shorter term investments are yielding higher rates of interest than longer term investments.. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. The Head of Finance and Business development under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

13. There are four further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – similar to the previous indicator this covers a maximum limit on fixed interest rates
- 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.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

**14.** The Council is asked to approve the following prudential indicators:

| | **2008-09 Upper** | **2009-10 Upper** | **2010-11 Upper** |
|---|---|---|---|
| Limits on fixed interest rates | £5,000,000 | £5,000,000 | £5,000,000 |
| Limits on variable rates | £0 | £0 | £0 |

| | Lower | Upper | Lower | Upper | Lower | Upper |
|---|---|---|---|---|---|---|
| Under 12 months | 0% | 50% | 0% | 50% | 0% | 50% |
| 12 months to 2 years | 0% | 0% | 0% | 0% | 0% | 0% |
| 2 years to 5 years | 0% | 0% | 0% | 0% | 0% | 0% |
| 5 years to 10 years | 0% | 0% | 0% | 0% | 0% | 0% |
| 10 years and above | 0% | 100% | 0% | 0% | 0% | 100% |

| | **2008-09** | **2009-10** | **2010-11** |
|---|---|---|---|
| Maximum principle sums invested over 364 days | £12,000,000 | £12,000,000 | £12,000,000 |

## Annex A1

## TREAURY MANAGEMENT PRACTICE (TMP) 1 (5) – CREDIT AND COUNTERPARY RISK MANAGEMENT

The Office of the Deputy Prime Minister (now DCLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pensions funds, which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Council's to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services; code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 14th March 2002 and will apply its principles to all investment activity. In accordance with the Code the Head of Finance has produced its treasury management practices. This part, TMP 1 (5) covering investment counterparty policy requires approval each year.

**Annual Investment Strategy –** The key requirements of both the Code and the investment guidance are to set an annual investment strategy as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for decision making on investments, particularly non-specified investments
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (ie high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investment in sterling and with a maturity of no more than a year
- Non-specified investments, clarifying the greater risk implications identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

**Strategy Guidelines** – the main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The UK Government (debt bills, UK treasury Bills or a Gilt with less than one year to maturity
- Supranational bonds of less than one year's duration
- A local authority, parish council or community council
- Pooled investment vehicles – such as money market funds, that have been awarded a high credit rating by a credit rating agency
- A body that has been awarded a high credit rating by a credit rating agency – such as a bank or building society

**The monitoring of Investment counterparties** – The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

**The use of external fund managers** – As reported last year, the Council has brought back "in-house" the management of the Council's investment portfolio.

# Further Details on the Treasury Management Strategy

1. The Council's treasury framework is required through the CIPFA Prudential Code, the CIPFA Treasury Code of Practice and the CLG Investment Guidance. This paper is a summary of the key requirements of the above. All the prudential indicators and treasury and investment strategies will be formally approved later during the budgetary cycle.

## The Capital Expenditure Plans

2. The Council's capital expenditure plans are shown below. Capital expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if these resources are insufficient any residual expenditure will form a borrowing need and will be charged to revenue over a period of time.

3. The Council's current summary capital expenditure projections and financing arrangements are set out below. It is anticipated that for the foreseeable future all the council's capital expenditure will be fully financed by grants or capital receipts.

| £'000 | 2007/08 Revised | 2008/09 Estimated | 2009/10 Estimated | 2010/11 Estimated |
|---|---|---|---|---|
| **Capital Expenditure** | | | | |
| Non-HRA | 5,973 | 759 | 460 | 237 |
| **Financed by:** | | | | |
| Capital receipts | 3,336 | 759 | 460 | 237 |
| Capital grants | 2,637 | | | |
| Capital reserves | | | | |
| Revenue | | | | |
| **Net financing need for the year** | **0** | **0** | **0** | **0** |

## The Council's Borrowing Need (the Capital Financing Requirement)

4. The Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need.

5. Where there is a Capital Financing Requirement, the Council must make a transfer from Revenue Budget each year to finance repayment. By financing all capital expenditure from grants and receipts, the Council avoids the need to make this provision from revenue resources each year.

6. The Council has no current or projected borrowing need, as shown below, since the capital programme is fully financed in each year.

| £'000 Capital Financing Requirement | 2007/08 Revised | 2008/09 Estimated | 2009/10 Estimated | 2010/11 Estimated |
|---|---|---|---|---|
| **Total CFR** | 0 | 0 | 0 | 0 |

### The Use of the Council's Resources and the Investment Position

7. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources £'000 | 2007/08 Revised | 2008/09 Estimated | 2009/10 Estimated | 2010/11 Estimated |
|---|---|---|---|---|
| Provisions | 620 | 620 | 620 | 620 |
| Capital receipts | 3,502 | 5,110 | 4,650 | 4,413 |
| Earmarked reserves | 5,761 | 4,031 | 2,971 | 2,352 |
| Balances | 1,400 | 1,400 | 1,400 | 1,400 |
| **Total Core Funds** | **11,283** | **11,161** | **9,641** | **8,785** |
| Working Capital | 622 | 622 | 622 | 622 |
| **Expected Investments** | **20,523** | **20,588** | **19,316** | **18,688** |

* Working capital balances shown are estimated year end; these may be higher mid year

### Debt and Investment Projections 2008/09 – 2010/11

8. Whilst paragraphs 2 to 6 above set out the overall framework for capital expenditure and borrowing need, the Council's treasury management function manages the physical cash borrowing and investment position in relation to these areas. The expected debt and investment position is shown below:

| £'000 | 2007/08 Revised | 2008/09 Estimated | 2009/10 Estimated | 2010/11 Estimated |
|---|---|---|---|---|
| **External Debt** | | | | |
| Debt at 31 March | 5,000 | 5,000 | 5,000 | 5,000 |
| **Investments** | | | | |
| Total Investments at 31 March | 20,523 | 20,588 | 19,316 | 18,688 |
| Investment change | 1,410 | 65 | (1,272) | (628) |

9. Whilst the Council has no borrowing need, it does maintain one £5m loan which pre-dates the housing transfer. The size of the penalty to redeem this loan is currently too large to allow economic repayment. The Council's Treasury Management advisors will continue to monitor investment and borrowing rates in order to ensure that the Council takes appropriate action should this situation change.

10. The related impact of the above movements on the revenue budget are:

| £'000 | 2007/08 Revised | 2008/09 Estimated | 2009/10 Estimated | 2010/11 Estimated |
|---|---|---|---|---|
| **Revenue Budgets** | | | | |
| Interest on Borrowing | 378 | 378 | 378 | 378 |
| Investment income | 1,509 | 1,,512 | 1,451 | 1,421 |