APPENDIX B

TREASURY MANAGEMENT STRATEGY (BORROWING)

INTRODUCTION

The capital expenditure plans set out in Appendix A provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	2,000,000	2,000,000	2,000,000	2,000,000
Other long term liabilities	-	-	-	-
Total	2,000,000	2,000,000	2,000,000	2,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
2. ***The Council is asked to approve the following Authorised Limit:***

Authorised limit	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	7,000,000	7,000,000	7,000,000	7,000,000
Other long term liabilities	-	-	-	-
Total	**7,000,000**	**7,000,000**	**7,000,000**	**7,000,000**

PROSPECTS FOR INTEREST RATES

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.10	3.30	3.30
Jun 2015	0.50	2.20	3.40	3.40
Sep 2015	0.50	2.30	3.60	3.60
Dec 2015	0.50	2.50	3.80	3.80
Mar 2016	0.75	2.60	3.90	3.90
Jun 2016	0.75	2.70	4.00	4.00
Sep 2016	1.00	2.80	4.20	4.20
Dec 2016	1.25	3.00	4.30	4.30
Mar 2017	1.25	3.10	4.40	4.40
Jun 2017	1.50	3.20	4.50	4.50
Sep 2017	1.50	3.30	4.60	4.60
Dec 2017	1.75	3.40	4.60	4.60

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is promising for the outlook for strong growth going forwards and it looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now expected that the US will be the first major western economy to start on central rate increases by mid 2015.

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

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation and the Middle East, have led to a resurgence of those concerns, as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets.

Economic forecasting remains difficult with so many external influences weighing on the UK.

BORROWING STRATEGY

The Council is currently debt-free and the approved Capital Programme for 2015/16 is being financed from capital receipts, capital grants and reserves. Any opportunities to undertake prudential borrowing in the future will be assessed on a business case basis in the light of emerging priorities and resource availability.

TREASURY MANAGEMENT LIMITS ON ACTIVITY

There are two related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on fixed interest rate exposure – This covers a maximum limit on fixed interest rates.
- Upper limits on variable interest rate exposure – This covers a maximum limit for variable interest rates.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Upper limit for fixed interest rate exposure Net principal re fixed rate investments	100%	100%	100%
Upper limit for variable interest rate exposure Net principal re variable rate investments	50%	50%	50%

POLICY ON BORROWING IN ADVANCE OF NEED

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

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