Council
22 February 2018

TREASURY MANAGEMENT STRATEGY 2018-19

Councillor Mordue
Cabinet Member for Resources, Governance and Compliance

1. Purpose

1.1 This report is being presented as the Council is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy

2. Recommendations

2.1	That the updated Treasury Management Strategy for 2018/19 be approved.

3. Supporting Information

3.1 The Treasury Management Strategy was considered by the Finance and Services Scrutiny Committee on 5 February, 2018.

3.2 The following comments were made by the Scrutiny Committee:

3.2.1 that the Council had agreed in September 2017 to set up a Commercial Property Strategy which included a capital fund of £100m. However, some concerns were expressed that the Panel had not yet been put together that would approve expenditure within the overall limit of the Strategy, subject to the Panel being satisfied with any business case / risk assessment proposals. The Committee was informed that the Government had introduced additional controls for Council borrowings for such Strategies. The Council was still awaiting for clarification on what this meant for the Strategy although no borrowings had been made to date.

3.2.2 that any proposals that required borrowings above the authorised borrowing limits should be considered by scrutiny before being submitted to full Council for approval.

3.3 Under Treasury Management guidance, the Council is required to approve, annually, a Treasury Management Strategy that establishes investment and borrowing policies for the Council for the current and future financial years.

3.4 The Committee discussed the Strategy, Prudential Indicators and Minimum Revenue Provision policy statement, and recommended that it should be submitted to full Council for approval.

4. Reasons for Recommendation

4.1 These are detailed in the attached report.

Contact Officer: Andrew Small (01296) 585507
Background Documents: None

Finance Services Scrutiny Committee
5 February 2018

TREASURY MANAGEMENT STRATEGY 2018-19

Councillor Mordue
Cabinet Member for Resources, Governance and Compliance

1 Purpose

1.1 This report is being presented as the Council is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These Statements and Strategy are attached in appendix A.

2 Recommendations/for decision

2.1 To approve the Treasury Management strategy for 2018/19 as detailed in Appendix A2-4.

2.2 To approve the Prudential Indicators as detailed in Appendix A2.

2.3 To approve the Minimum Revenue Provision policy statement as detailed in Appendix A5.

3 2018/19 Treasury Management Strategy

3.1 The annual Treasury Management Strategy is attached as Appendix A and includes the Prudential Indicators that are used as part of the self governance framework.

3.2 This report provides supplementary background to the Strategy and summarises a number of issues of note to Members.

3.3 The Key messages are:

- Investments – the primary governing principle will remain security over return and the criteria for selecting counterparties reflect this.
- Borrowing – overall, this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
- Governance – strategies are reviewed by the Audit Committee with continuous monitoring which includes Mid-Year and Year End reporting.

3.4 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons.

3.5 The key objectives of the Prudential Code developed by CIPFA are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. The Code requires the Council to agree and monitor a number of prudential indicators. The indicators cover affordability, prudence, capital expenditure, debt levels and treasury management. These indicators will also form the basis of in-year monitoring and reporting.

3.6 The limits and indicators that the Authority is required to determine by the code are:

Capital and Debt Indicators

Capital Expenditure - Represents the agreed Capital Programme and sets out the planned capital expenditure over the next three years.

Capital Financing Requirement – The amount the Authority needs to borrow in order to deliver its Capital Expenditure plans.

Affordability Index - This is the proportion of the Authority's income which is taken up by loan repayments and interest. The more the Authority borrows the less is available for delivering services.

Treasury Management Indicators

Exposure to Interest Rate Risk - The maximum proportion or borrowing which can be on either fixed or variable interest rates. By setting a maximum proportion a limit is placed on the amount by which the Authority's finances will be affected by movements in base rates.

Maturity Profile - The maximum length of time over which borrowing can be taken. Authorities can borrow for any length providing that they can afford to do so.

Authorised Limit - The combined maximum amount the Authority can take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes

Operational Limit - The amount the Authority realistically expects to borrow and represents the figure that the Authority would not expect to exceed on a day to day basis

4 Background

4.1 The Appendix sets the Treasury Management Strategy and outlines the background to the prudential indicators relating to the Council's capital expenditure plans, the capital financing requirement and affordability generally.

4.2 The proposed MRP Statement is also included in the Appendix A6.

4.3 The Strategy has been drawn up in association with the Council's treasury management advisors, Link Asset Services. The Strategy reflects up to date information and advice.

4.4 There are no significant changes to the 2018/19 strategy

4.5 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.6 The final Capital Programme will be presented to Council on 31st January 2018. The report provides Council with forecast of forecast receipts and the position with regards to current and future major investment projects.

4.7 A total capital spend of £10.850m is proposed for 2018/19.

4.8 A number of changes in respect of anticipated resources have been factored into the programme and include a) share of house sale receipts from Vale of Aylesbury Housing Trust, b) Asset Sales from disposal of Council-owned assets mainly land or property c) Lottery, Grants & Section 106 which relates to external resources not related to asset sales and d) planned contributions from the New Homes Bonus reserve.

4.9 There is no explicit requirement for further loans or borrowings. Decisions to borrow against agreed business cases are made on a case by case risk assessed basis and may vary from original financing plans. All decisions to borrow are made against a background of existing resource availability and minimising costs and maximising returns. Where possible decisions to borrow are avoided with the use of the Council's capital receipts being a preferred methodology to fund capital development. The reduced borrowing costs for 2018/19 are a direct result of decisions to borrow less against agreed plans.

4.10 The strategy was updated in 2017/18 to allow the Council to lend to parish councils. The strategy has set a £500,000 and six month limit, if the opportunity arose.

4.11 The Council has a Commercial Property Strategy which includes a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100k from the New Homes Bonus (NHB) Fund. As yet no draw down has taken place, and is unlikely until 2018/19. The objective of the scheme is to generate new streams of income to help offset the significant cuts in Government funding and to ensure sufficient finance is available to support the continued delivery of and investment in services to the local community.

4.12 As reported later in this report, the Government is currently consulting on changes to council borrowing powers which may restrict the ability to deliver acquisitions against this scheme. The development of these Government proposals are being watched closely and an update will be provided when clarity exists.

4.13 At the time of writing this report, the Council are also reviewing the impact of the Revised CIPFA Treasury Management and Prudential Codes 2017 and also outstanding consultation exercises.

4.14 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. The interpretation and the application of the codes are still under review, both at a local and national level.

4.15 CIPFA has issued a statement that accepts that the issue of revised codes at this late stage in the current 2018-19 budget cycle will make it very difficult for most authorities to fully implement both codes. Accordingly, full implementation is not expected until 2019-20 across all authorities. For the Council, a strategy for implementation will be considered during the financial year 2018-19.

4.16 The codes require all local authorities to produce detailed Capital Strategies, though CIPFA accepts that authorities may not be able to implement this in the 2018-19 budget cycle. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a Capital Strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.

4.17 The DCLG consultation on investment guidance closed on 22 December 2017 and the outcome of this consultation is still awaited. This will focus particularly on non-financial asset investments.

4.18 The Government believes that local authorities need to demonstrate more transparency and openness in relation to investment activities. The DCLG are looking to extend the principle of Security, Liquidity and yield to non-financial investments.

4.19 The DCLG consultation on MRP guidance closed on 22 December 2017 and so we are currently waiting for the revised guidance to be issued. This will focus particularly on expenditure on purchasing non-financial asset investments.

4.20 The Minimum Revenue provision (MRP) charge is the means by which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt. Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

4.21 The Government has launched Consultation on current Minimum Revenue Guidance (MRP), suggesting four key changes to the current MRP Guidance. These are definition of Prudent Provision, Meaning of a charge to the revenue account, the impact of changing methods of calculation MRP and introduction of a maximum economic life of assets. As a result the government proposes to update the guidance as part of the more general update of the statutory codes comprising the prudential framework.

4.22 The outcome of the Consultation will need to be modelled once known and the impact on the Council budget assessed for 2018-19 and future years. It is anticipated that the revised guidance will come into force on or after 1 April 2018.

4.23 There are also proposals in relation to IFRS arising from the 2018/19 Accounting Code of Practice proposals for financial assets. Whilst for many this may not be a significant issue, key considerations will need to be considered. These are technical changes in relation to Expected Credit Loss Model and also equity related to the "commercialism" agenda, property funds, equity.

5 Economic Background

5.1 We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.5% Bank Rate. As a consequence, authorities are not getting a material return from deposits. It is against this backdrop that the Council operate.

5.2 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 and the Council's capital strategy. 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.

5.3 The UK economy is also still reacting after the decision to leave the European Union and will continue to do so. Whilst, the pound fell during the summer period, it has started to slowly rise towards the end of the year (albeit from a low level). Exports have continued to rise, but as yet it is not clear the effect that the recent rise of 0.25% on interest rates will have on the economy generally.

5.4 The Council's treasury advisor, Link Asset Services, as part of their service provide a view on the future forecast rates for Base Rate and PWLB:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

5.5 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

5.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK.

6 MiFID 2

6.1 The EU introduced the legislation to regulate firms who provide services to clients linked to financial instruments and the way they are traded. The "Markets in Financial Instruments Directive" (MIFID 2) is set to commence on the 3 January 2018.

6.2 Under MIFID II, all local authorities are now classified as retail counterparties and have to consider whether to opt up to professional status and for which types of investments.

6.3 With investments exceeding £10m in total investments, AVDC will be opting up to professional status. Remaining as "retail" would reduce the ability to invest funds in certain products and so could reduce, further, interest achieved through investments.

6.4 To "opt up", the Council need to meet a number of number of qualitative and quantitative test criteria to satisfy. The opt- up process is not a one off exercise. It will need to be undertaken with every counter party / fund manager that the council deals with. One of the tests is that councils will need to have £15m or more in their investment portfolio, which currently Aylesbury Vale would meet.

6.5 Many of the current investments are through bank and building society deposits and so fall outside the scope of the directive.

7 Property Funds

7.1 Last year the use of Property Funds was included within the strategy as an alternative long term deposit to the use of Fund Managers.

8 Investments and Loan as at 31st December 2017

8.1 As at 31st December 2017, the Council had following portfolio of investment and loans.

<u>Borrowing</u>

Fixed Rate Funding: £22.886m. Average Rate: 3.545%.

<u>Investments</u>

Fixed Rate and Notice Account Investments:£56.129m.Average Rate: 0.518%.

9 Scrutiny

Finance and Services Scrutiny Committee now receive the Treasury Management Strategy prior to Council.

10 Reasons for Recommendation

Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual strategy statement prior to the 1st April on its Treasury Management function. This report represents the fulfilment of that requirement.

11 Resource implications

11.1 The authority operates an Interest Equalisation Reserve to smooth out fluctuations in interest rates.

11.2 As a result of the level of sums managed by the Council during 2017/18 and the continuing low interest rate, the interest generated, although low, was marginally higher than budget.

11.3 This means that at the end of 2017/18, the interest equalisation reserve is estimated to be £2.817 million.

11.4 The phased use of the balance on the Interest Equalisation Reserve forms part of the annual budget setting exercise. Following the last budget setting exercise, it was agreed that the current balance on the reserve was a prudent amount to hold in light of there being no expected change in interest rates in the short term.

11.5 The Medium Term Financial Plan also recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings. The plan is, therefore, gradually reducing the Council's reliance on interest earnings over time, so as to manage the remaining balance on the interest equalisation reserve.

Contact Officer	Nuala Donnelly 01296 585164
Background Documents	Capita Services Treasury Management Update CIPFA Prudential Code Statutory Code of Practice for Treasury Management

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Aylesbury Vale District Council
2018/19

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition to this report, borrowing and deposit positions are reported in the Quarterly Financial Digest.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Services Scrutiny Committee.

Report to	Frequency
Council	
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually mid year (September/October)
Treasury Outturn Report	Annually after the year end and by the 30 September
Finance and Services Scrutiny	
Receives each of the above reports in advance of Council (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation of Treasury transactions have complied with the Strategy	Quarterly by way of the Financail Digest.

Capital Strategy
In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The training needs of Members and treasury management officers will be reviewed in -year.

1.5 Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital programme has been agreed by Cabinet and final approval being sought by Council in February 2018. Members will be asked to approve the capital expenditure forecasts as detailed below.

Capital expenditure £000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	**20,139**	**10,850**	**2,940**	**2,740**	**2,585**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £000s	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Receipts	3,410	6,210	2,910	2,740	2,585
Capital Grants		3,300			
Capital Reserves	9,752		0		
Borrowing	1,278	1,013	30		
Revenue	5,699	327			
Net financing need for year	**20,139**	**10,850**	**2,940**	**2,740**	**2,585**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000s	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	23,080	24,183	25,016	24,831	24,646
Expected change in Debt	1,103	833	-185	-185	-185
Actual Gross debt at 31 March	**24,183**	**25,016**	**24,831**	**24,646**	**24,461**
The Capital Financing Requirement	**44,047**	**46,658**	**44,986**	**44,816**	**44,491**
Under / (over) borrowing	19,864	21,642	20,155	20,170	20,030

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to 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 (£000s)	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances and reserves	34,546	34,736	35,597	35,597	35,597
Capital receipts	6,809	6,809	6,809	6,809	6,809
Provisions	1,931	1,931	1,931	1,931	1,931
Other	2,943	2,943	2,943	2,943	2,943
Total Core Funds	**46,229**	**46,419**	**47,280**	**47,280**	**47,280**

2.4 Affordability prudential indicators

The strategy details 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. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. 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.

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	**-10.55%**	**-6.60%**	**-6.52%**	**-6.39%**	**-6.24%**

The estimates of financing costs include current commitments and the proposals in this budget report.

2.5 Treasury indicators for debt

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and 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.

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

Upper Limit on Fixed Interest Rate Exposure

Indicator	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Upper limit on fixed interest rate exposure	100%	100%	100%	100%	100%

Upper Limit on Variable Interest Rate Exposure

Indicator	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Upper limit on variable interest rate exposure	20%	20%	20%	20%	20%

Maturity Structure of Fixed Rate Borrowing

Indicator	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Under 12 months	21%	21%			
12 months & within 24 months					
24 months & within 5 years					
5 years & within 10 years		21%	27%	27%	27%
10 years & within 20 years	21%				
20 years & within 30 years				73%	73%
30 years & within 40 years	58%	58%	73%		

2.6 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt	35,000	50,000	50,000	50,000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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 this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	50,000	70,000	70,000	70,000

3 TREASURY MANAGEMENT STRATEGY STATEMENT

The capital expenditure plans set out in Section 2 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 and the Council's capital strategy. 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.

This Council defines its treasury management activities as:

The management of the authority's borrowing, investments and cash flow, its banking, money market and capital market transactions; the effective control of the risks associated with those risks; and the pursuit of optimum performance consistent with those risks.

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and DCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The generation of investment income to support the provision of local authority services is important, but secondary, objective.

The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

3.1 Current portfolio position

The Council's treasury portfolio position as at 31 December 2017 comprise:

Borrowing

Fixed Rate Funding: £22.886m. Average Rate: 3.545%.

Investments

Fixed Rate and Notice Account Investments:£56129.m.Average Rate: 0.518%.

3.2 Prospects for interest rates

The Council has appointed Link 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 our central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.3 Borrowing strategy

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 as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.4 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.

3.5 Debt rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet Committee, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.2 Creditworthiness policy

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 that:

- 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; and
- 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.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

	Good Credit Quality with a minimum agency credit rating (where rated).	Minimum Ratings
BANKS		
1.1	Are UK banks	A
1.2	Are non-UK and domiciled in a country which has a minimum sovereign long term rating of	AAA
	Non –UK Banks: Short Term	F1+
	Non – UK Banks: Long Term	AA
2.1	Part nationalized UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalized or they meeting the ratings in Banks 1 above.	n/a
3.1	The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimized (wherever possible) in both monetary size and time.	
BUILDING SOCITIES	The Council will use all societies within the top 20 that have assets over £½ billion. See time and amount restrictions below.	n/a
MMF	The Council will use Money Market Funds.	AAA
GOV'T		
1.1	The Council will use the UK Government (including gilts and the Debt Management Agency).	AAA
1.2	Local Authorities and Parish Councils	n/a
FOREIGN		
1.1	Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:	AA
1.2	no more than 25% will be placed with any non-UK country at any time	
1.3	limits in place above will apply to a group of companies	
1.4	sector limits will be monitored regularly for appropriateness	

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money and / or % Limit	Time Limit
Banks 1 higher quality	**AAA**	**£7.5m**	**1 year**
Banks 1 medium quality	**AA**	**£5m**	**1 year**
Banks 1 lower quality	**A**	**£3m**	**6 months**
Banks 2 – part nationalised	**N/A**	**£7.5m**	**1 year**
Banks 3 – Council's Banker (not meeting Banks 1)	**XXX**	**£2.5m**	**1 month**
Building Societies < £1 billion	**N/A**	**£1m**	**6 months**
Building Societies > £1 billion	**N/A**	**£3m**	**1 year**
Money Market Funds	**AAA**	**£7.5m**	**liquid**
Debt Management Agency	**AAA**	**unlimited**	**6 months**
Local Authorities	**N/A**	**£5m**	**1 year**
Local Authorities Parishes	**N/A**	**£500,000**	**6 months**
Foreign	**AA**	**£5m**	**1 year**
Other institutions Limit	**-**	**£2.5m**	**6 months**

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Indicator	**2015/16 Actual**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Total principal sums invested for periods longer than 364 days (£'000)	0	0	5,000	5,000	5,000

This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.

4.5 Investment Liquidity

In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

4.6 Property Funds

The use of Property Funds is included within the strategy as an alternative long term deposit to the use of Fund Managers.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 External fund managers

The Council now has no funds externally managed.

5 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year.

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).

Asset Life Method
Since 1 April 2014, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is expected to be £1.702m for 2018/19.

Where assets have been purchased utilising capital grants or revenue contributions no MRP calculation is required. Only assets purchased utilising borrowing require an MRP charge.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Director of Finance, with regard to the statutory guidance and advice from professional valuers.