Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

and Capital Strategy

Aylesbury Vale District Council
2019/20

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.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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.”*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 **Reporting requirements**

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term 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

This is detail as Appendix A-7

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and 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).

b. **A mid-year treasury management report –** This is primarily a progress report and will update members on 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.

c. **An annual treasury report –** This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The reports below 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.

1.3 **Treasury Management Strategy for 2019/20**

The strategy for 2019/20 covers two main areas:

Capital issues

- the capital expenditure plans and the associated 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, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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.

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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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 INDICATORS 2019/20 – 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. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £m	2017/18 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	**20.139**	**6.337**	**22.121**	**1.940**	**1.825**

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 Actual**	**2018/19 Forecast**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Capital Receipts	3,410	3,580	6,440	1,950	1,825
Capital Grants		0			
Capital Reserves	9,752	2,430	6,081		
Borrowing	1,278		9,200		
Revenue	5,699	327	400		
Net financing need for year	**20,139**	**6,337**	**22,121**	**1,950**	**1,825**

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 through a revenue or capital resource, 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 Council is asked to approve the CFR projections below:

£000s	2017/18 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	23,080	24,183	19,003	18,818	18,633
Expected change in Debt	1,103	-5,180	-185	-185	-185
Actual Gross debt at 31 March	**24,183**	**19,003**	**18,818**	**18,633**	**18,448**
The Capital Financing Requirement	**41,205**	**41,933**	**54,564**	**53,104**	**51,519**
Under / (over) borrowing	17,022	22,930	35,746	34,471	33,071

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.).

Year End Resources (£000s)	2017/18 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances and reserves	35,976	35,926	35,926	35,926	35,926
Capital receipts	10,709	10,709	10,709	10,709	10,709
Provisions	1,931	1,931	1,931	1,931	1,931
Other	2,955	2,955	2,955	2,955	2,955
Total Core Funds	**51,571**	**51,521**	**51,521**	**51,521**	**51,521**

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 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	**-12.13%**	**-13.69%**	**-14.80%**	**-14.27%**	**-14.04%**

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

3 BORROWING

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.

3.1 **Treasury Indicators: limits to borrowing activity**

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 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%

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%

Maturity Structure of Fixed Rate Borrowing

Indicator	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Under 12 months	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				
20 years & within 30 years			73%	73%
30 years & within 40 years	58%	73%		

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 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate
External Debt	35,000	50,000	50,000	50,000

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal 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 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate
Debt	50,000	70,000	70,000	70,000

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.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. 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, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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 2019/20 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.

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.

3.4 **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 the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 **Investment policy – management of risk**

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (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	AA

	sovereign state in Banks 1 above. In addition:	
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**	**£10.00m**	**1 year**
Banks 1 medium quality	**AA**	**£7.5m**	**1 year**
Banks 1 lower quality	**A**	**£5m**	I year
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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns

out, how slowly inflation pressures subside, 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 following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
	£000s	£000s	£000s
Principal sums invested for longer than 365 days	5,000	5,000	5,000

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

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 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.

4.7 Property Funds

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

4.8 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.

4.9 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).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

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 £1.485m for 2019/20.

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.

6 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.

Current portfolio position

The Council's treasury portfolio position as at 31 December 2018 comprise:

Borrowing

Fixed Rate Funding: £17.694m. Average Rate: 4.114%.

Investments

Fixed Rate and Notice Account Investments:£44.635m.Average Rate: 0.803%.

7 Capital Strategy

7.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.

7.2 To comply with statutory requirements, an expanded, but still abridged (because unitary) strategy is presented alongside the Treasury Management Strategy in January 2019. The key principles of the strategy are set out below

Capital Strategy Lifespan

7.3 The purpose of the Capital Strategy is to drive the authority's capital investment ambition over a 20-30 year time frame, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.

7.4 However, the development of the Capital Strategy for AVDC is overshadowed by the unitary decision which only gives the Council the ability to plan for a single year. Thereafter, it will be a matter for the new Council to determine its own Capital Strategy and Financial plan given its own priorities and pressures. It is unlikely that this will mirror AVDC's focus given its narrower range of priorities and it geographical focus. Therefore it would be wrong for the Council to fetter the planning process for the new unitary council.

7.5 Whilst the Council cannot tell the new organisation what its priorities should be it can at least expand upon what Aylesbury Vale's investment priorities would have been (and it's approach to funding these) in order to give guidance to the new council and demonstrate that it is handing over it's affairs in a strong position.

Links to the Corporate Plan and External Partners

7.6 The capital programme for the council would normally be a long term ambition, reflecting the Council's ambitions (as set out within the Corporate Plan) stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings is very long term and as such should be considered accordingly in financial and asset management planning. However, the Councils planning period will obviously be curtailed by the unitary decision.

7.7 The Revenue Budget report refers to AVDC Priorities which underpin the development on the Medium Term Financial Plan and these equally apply to the Capital Strategy development process. These being:

- Financially Fit
- Leading and Shaping of Place
- Customer and Innovation
- Partner, Community and Environment

7.8 The Council will works closely with its strategic partners in the formulation of its Capital Strategy in order to understand the growth, infrastructure demands and pressures on the area. Key organisations include the County Council, the LEPs (including the Enterprise Zone Board), Bucks Advantage and East West Rail and East West Corridor.

Corporate Priorities Driving Capital Investment

7.9 The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio now mainly consist of small land holdings and our operational buildings i.e. offices, leisure facilities, public conveniences etc.

7.10 The Capital Strategy for AVDC for 2019-20 will focus on core principles that underpin the council's capital programme in the short term only and the issues and the risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Aylesbury Vale.

7.11 Within a shorter timeframe the focus of the capital strategy is towards the delivery and implementation of existing capital schemes, such as Town Centre Improvements, the completion of the Depot Expansion project and the promotion and delivery of affordable housing provision in the Vale.

7.12 With Housing Growth likely to define the area over the next 20 years, it is essential that investment strategies recognise and does not neglect the needs of growing and expanding communities and make provision of a full range community spaces, leisure activities and housing opportunities.

7.13 Within the short term timeframe the capital programme may still be amended by the introduction of urgent, high priority capital schemes (subject to its justification via an appropriate Business Case).

7.14 The programme will need to be flexible to ensure that the capital programme can incorporate schemes to meet the requirements or opportunities that arise. As part of capital programme and resource management, schemes may be phased over multiple years due to factors such as complexity, resourcing, legal and planning requirements.

Capital Financing Principles

7.15 With limited unallocated capital resources the Strategy will seek to prioritise scheme that can either generate income streams to offset borrowing costs or which can be funded through external funding streams, such as through grants.

7.16 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.

7.17 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.

7.18 Production of the Capital Programme will be aligned to the Revenue Budgeting process to ensure any ongoing revenue implications are both fully understood and are affordable in the context of the Council's overarching funding position.

Risk Management, Monitoring and Governance

7.19 The development, management and monitoring of capital investments for 2019/20 will remain under the control of AVDC.

7.20 Risk is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite.

7.21 Monitoring of the Programme will be undertaken by joint officer / member working groups (currently, the Major Projects Group) and financial performance will be reported to Finance and Services Scrutiny Committee via the Quarterly Financial Digest and update reports, when necessitated.

7.22 The Treasury Management Strategy for 2019-20, to be presented to Council for approval, will include detail on expenditure plans and the associated prudential indicators. Any amendments to the Strategy or Capital Programme will follow the Council's standard democratic arrangements and will be presented to Cabinet, Scrutiny and then Council in order to allow for a full debate of the proposals.

7.23 The development of capital investments beyond 2020 will ultimately be delivered by the new Authority, but it is hoped that it will be strong influenced by the legacy of Aylesbury Vale..