2019/20 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

Report of the Borough Treasurer

KEY HIGHLIGHTS REPORT

1 Introduction and Purpose of Report

1.1 The Council has delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee (CRMG). As such, the views of CRMG were sought and any opinions or suggestions made have been taken into account when formulating the Council's strategies for treasury management in 2019/20.

1.2 This comprehensive report sets out the Council’s Treasury Strategies for 2019/20 which are constructed in full compliance with the CIPFA Treasury Management in Public Services Code of Practice and the Council's Treasury Management Policy Statement and Practices.

1.3 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG[1] 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 to Members on this Agenda

1.4 The Council will receive and be required to approve three central reports in 2019/20 which incorporate a variety of polices, estimates and actuals. These are as follows:

- ‘The Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and MRP Statement’. A forward looking report which sets the scene for the forthcoming financial year;
- ‘The Mid-Year Review Report’ on the approved current strategy which updates Members on the treasury and capital position;
- ‘The Annual report’. A retrospective review at the end of the financial year.

1.5 The specific roles of the Borough Treasurer as Section 151 officer have been extended in this year’s Strategy to include a series of roles in respect of the Capital Strategy and also a specific role in respect of investment in non-financial assets. These have been reported as part of the Treasury Management Strategy Report for 2019/20 as CIPFA has extended the definition of Treasury Management and investments to include ‘non-financial assets’, even though at the same time it says these are ‘non-treasury’ investments (which have been reported in the Capital Strategy).

2 Capital Plans, Prudential Indicators and Capital Strategy

This specifies the Capital Plans, Capital Strategy 2019/20 and the Prudential

[1] The Ministry of Housing, Communities and Local Government's (formerly the Department for Communities and Local Government)

Indicators for 2019/20-2020/21; these are detailed in Sections 3 and 4 of the full report and include Capital Expenditure forecasts for approval and the Council's borrowing need (Capital Financing Requirement).

3 The Minimum Revenue Provision (MRP) Policy Statement

3.1 The Council is required to settle an element of its non-HRA Capital Financing Requirement (CFR) each year by way of a revenue charge (the Minimum Revenue Provision, 'MRP'). Local Authorities may also provide additional 'Voluntary Revenue Provision' if they wish to do so.

3.2 MHCLG guidance recommends the preparation of an annual statement of policy on making MRP for submission to the Council Meeting for approval. The terms of the original statement may be revised during the year subject to the revised statement being approved by the Council Meeting at that time. The guidance presents four 'ready-made' options for calculating MRP but other options are not ruled out provided they are consistent with the statutory duty to make prudent provision.

3.3 The Council's MRP Policy Statement is set out in Section 5 for approval. The statement is effective from 1 April 2019, relating to the financial year 2019/20 and is unchanged from the current year's policy.

4 Treasury Management Strategy (TMSS) 2019/20

4.1 The Treasury Management Service ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet its service activity. This will involve both the organisation of the cash flow, and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2 **Current Portfolio Position**
The Council's Treasury forecast portfolio position at 31 March 2019 with forward projections is given in paragraph 6.1 of the main report which highlights the Council's under-borrowed position.

4.3 **Treasury Limits 2019/20 to 2021/22**
Proposed prudential and treasury indicators for 2019 to 2021 are summarised in Appendix 1 for approval; these provide forward estimates of treasury activity and capital expenditure.

4.4 **Prudential Indicators: Limits to Borrowing Activity**
These limits are based on the Council's current approved plans for capital expenditure and financing and are affordable and prudent.

4.5 **Borrowing Limits**
Operational Boundary: The limit beyond which external debt is not normally expected to exceed for 2019/20 is £836m.

Authorised Limit: The limit beyond which external debt is prohibited for 2019/20 is £856m.

4.6 **Interest Rate View**
A detailed interest rate forecast for the next three years is included in Appendix 2.

4.7 Economy and Interest Rates

4.7.1 Generally positive economic statistics after the quarter ended 30 June 2018 provided the necessary inducement for the Monetary Policy Committee of the Bank of England (MPC) to make the first increase in Bank Rate (on 2 August) above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report 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 March Brexit deadline. On the assumption that a Brexit deal is agreed in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

4.7.2 The overall long-term trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, from time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

4.7.3 The interest rate forecasts in the report in paragraph 6.3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.8 Borrowing and Lending Rates

4.8.1 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. The next increase in Bank rate to 1% is expected by mid-2019.

4.8.2 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

4.8.3 PWLB rates are likely to be subject to significant volatility in the coming months driven predominantly with developments with Brexit and ensuing investor confidence. The long-term forecast is for PWLB rates to be on a gently rising trend.

4.8.4 Target PWLB borrowing rates at which new long-term borrowing may be considered (as at Q1 2019) are: 5 year 2%, 10 year 2.50%, 25 year 2.90% and 50 year 2.70%.

4.9 Borrowing Strategy 2019/20

4.9.1 The Council has implemented a policy of maintaining an internally borrowed position for a number of financial years and as such has benefited from delaying long-term borrowing costs and instead relied on internal resources. As this is a temporary measure which can’t be sustained the Council is likely to externalise some of that internal borrowing during 2019/20 and take on new long-term borrowing.

4.9.2 The Council will make use of temporary borrowing from the money markets/other local authorities throughout 2019/20 to supplement cashflow fluctuations.

4.9.3 If longer-term interest rates look set to rise or if the Council is experiencing liquidity issues through problems in raising temporary loans and therefore wishes to externalise some of its position, the Council's borrowing strategy will give consideration to new borrowing in the following order of priority:-

- The cheapest borrowing will be internal borrowing by running down cash balances, however the scope to continue this is policy is somewhat limited.
- The Council will make use of temporary borrowing from the money markets/other local authorities throughout 2019/20 to supplement cashflow fluctuations, however this is also dependent on the availability of short-term loans in the market, which can vary throughout the financial year.
- Medium dated borrowing from non PWLB sources, i.e. up to five year loans from other local authorities if available and if it can be demonstrated that these provide a reasonable margin below the equivalent PWLB Certainty Rate. Longer term loans would also be considered as an alternative (up to ten years or more), but it is unlikely other councils would have the funds available over a longer timeframe.
- If longer-term interest rates look set to rise or the Council needs to externalise some of its internal borrowing then the Council will weigh up the cheapest long-term funding options. This will include PWLB borrowing at the Certainty Rate (20 basis points below the standard PWLB borrowing rates). All new longer-term borrowing will also be considered in relation to the current debt maturity profile of the Council. If long term fixed rate market loans are available at rates significantly below the PWLB Certainty rate, for the equivalent maturity periods and maintain an appropriate balance between PWLB and market debt, then these may be a favourable addition to the debt portfolio.

4.9.4 **Treasury Indicators: Treasury Management Limits on Activity**
The three debt related treasury activity limits aimed at managing risk and reducing the impact of any adverse movement in interest rates are given in paragraph 6.5. These provide upper limits on variable and fixed interest rate exposure, principal amounts invested over 365 days and net debt compared to gross debt. Limits are also given to the maturity structure of borrowing which controls the amount of debt maturing in differing periods so that refinancing does not overly expose the Council to interest rate risk.

5 Annual Investment Strategy (AIS) 2019/20

5.1 Investment Policy

5.1.1 The Council investment policy has regard to the MHCLG'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') and CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, portfolio liquidity second, then return.

5.1.2 In accordance with guidance from the MHCLG 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 with whom it can invest and 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.

5.2 **Creditworthiness Policy**

5.2.1 The Link Asset Services modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swaps (CDS) spreads for which the end product is a series of colour coded bands, which indicate the relative creditworthiness of counterparties and therefore suggested duration for investments; a detailed explanation of the Council's approach for approval is given in paragraphs 7.2.

5.2.2 Investment instruments for use in 2019/20 are listed in Appendix 3 with minimum credit band under this methodology, (where no colour band is provided minimum criteria have been provided).

5.2.3 The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign rating of AA- from Fitch (or equivalent). The list of countries that qualify at the date of the report are given in Appendix 5.

5.2.4 If there were to be a disorderly Brexit, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA to AA-. In the exceptional circumstances that the UK sovereign rating were to fall below AA- then special dispensation would be immediately implemented for the Council to invest with UK banks with a sovereign rating below this AA- threshold.

5.2.5 No Country limit is provided for the UK or formal sector limits for banks and building societies.

5.3 **Investment Strategy 2019/20**

5.3.1 The Council's in-house managed funds will be made with reference to core balance and cash-flow requirements and the outlook for interest rates.

5.3.2 The budgeted return of 1.00% for 2019/20 assumes an average investment duration of up to approximately three months and is in line with the forecast LIBID rate for the period. This return will be revised upwards if the Bank Rate starts to increase earlier, or if the Council places significant investments for longer periods than 100 days.

5.3.3 For its cash flow generated balances, the Council will utilise Money Market Funds (MMF), instant access and notice accounts and some short-dated deposits (overnight to 100 days).

5.3.4 The Council is not expected to have 'non-core' cash to invest over a longer time frame, however this may change if the Council takes on significant long-term borrowing during 2019/20. This scenario would mean the Council would consider longer term investments at enhanced levels and this may involve considering alternative investment products, as detailed in paragraph 7.6. The Treasury indicator for principal funds invested for greater than 365 days has consequently been set at £80m to allow the Council the necessary flexibility should this materialise.

6 **Recommendations**

The Council Meeting is recommended to approve:

- The Minimum Revenue Provision Policy for 2019/20;
- The Capital Expenditure forecasts and Capital Financing Requirement projections;

- The Treasury Management Strategy 2019/20;
- The Treasury and Prudential Indicators and limits 2019/20-2021/22;
- The Annual Investment Strategy 2019/20.

2019/20 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

Report of the Borough Treasurer

FULL REPORT

1 INTRODUCTION AND PURPOSE OF REPORT

1.1 CIPFA TREASURY MANAGEMENT CODE OF PRACTICE

1.1.1 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'.

1.1.2 The Council is required to operate a balanced revenue budget, which broadly means revenue cash raised during the year will meet its revenue cash expenditure. The primary function of the Treasury Management Service is to ensure this cash flow is adequately planned, with core cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity before considering investment return.

1.1.3 The second main function of the Treasury Management Service is to arrange the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially this is longer term cash flow planning to ensure 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 existing debt may be restructured to meet Council risk or cost objectives.

1.1.4 The contribution the treasury management function makes to the Council 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.

1.1.5 The Council has delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee (CRMG). As such, the views of CRMG were sought and any opinions or suggestions made have been taken into account when formulating the Council's Treasury Management Strategies for 2019/20.

1.1.6 This comprehensive report sets out the Council's Treasury Management Strategies for 2019/20 which are constructed in full compliance with the CIPFA Treasury Management Code and the Council's Treasury Management Policy Statement and Practices.

1.1.7 An Equalities Impact Assessment has been carried out on the Treasury Management Strategy; this is included at Appendix 6.

1.2 CIPFA CODES REVISIONS

1.2.1 All treasury management reports written during the financial year of 2019/20 will be updated to take account of the following: -

- CIPFA Code of Practice on Treasury Management 2017;
- CIPFA Prudential Code 2017;
- CIPFA Treasury Management in the Public Services Guidance Notes 2018;
- CIPFA statement on borrowing in advance of need and investments in commercial properties (17.10.18);
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018;
- Statutory investment guidance where it has been updated in 2018; and
- Statutory MRP guidance where it has been updated in 2018

1.2.2 The main objective of the above was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. This development has raised several concerns:

- A local authority should define its risk appetite and its governance processes for managing risk;
- A local authority should assess the risks and rewards of significant investments over the long term, as opposed to the usual three to five years that most local authority financial planning has been conducted over, in order to ensure the long term financial sustainability of the authority. (CIPFA has not defined what longer term means but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10 year time frame and to focus on affordability in particular);
- The Prudential Code has also expressed concern that local authorities should ensure that an authority's approach to commercial activities should be proportional to its overall resources; and
- A local authority should have access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

1.2.3 Consequently, the Prudential Code 2017 introduced a new requirement for local authorities to produce an annual Capital Strategy, to deal with the above issues. The Council has decided to report the Capital Strategy 2019/20 separately from the Treasury Management Strategy and Annual Investment Strategy 2019/20. The Council's Capital Strategy has been written as a high level corporate document dealing with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determination of an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the Council

1.2.4 The Capital Strategy also focuses on 'commercial' (non-treasury) investments, in appropriate detail so that Members can properly assess the particular risks in this area. Commercial non-financial investments for the purposes of the Code are identified as those focused on income generation, whereas the Council would argue none of its commercial type investments have been entered into solely for the purposes of income generation, but rather for the Council's ambition to redevelop

and improve the town centre. The Capital Strategy is being reported separately to Members elsewhere on this Agenda.

1.2.5 Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, so the residual cash held in the bank resulting from the Council's day to day activities. These are invested under the SLY (Security, Liquidity and Yield) principles.

1.2.6 Investment in commercial non-financial investments, especially in property, do not form part of treasury management activities carried out by the treasury management team of the Council. Accordingly, the TMSS and AIS for 2019/20 does not deal with expenditure on, or investing in, non-financial investments, but solely on treasury management investments. This will give Members the focus to provide for greater critical examination and understanding of the Council's treasury management strategies and policies for 2019/20.

1.3 PRUDENTIAL INDICATORS (SECTION 6 PRUDENTIAL CODE)

1.3.1 For the information of Members, the Prudential Indicators in the revised Prudential Code 2017 included the following changes from the previous Code:

- Net Debt and the CFR prudential indicator have been updated to Gross Debt and the CFR (this had previously only been updated in the Prudential Code Guidance, 2013 but has been reported to Members in the current year's TMSS);
- The prudential indicator requirement to note the approval of the Treasury Management Code has been removed; and
- The prudential indicators for the incremental impact on council tax and housing rents have been removed, however these have still been included in this report for the information of Members.

1.4 INVESTMENT IN NON-FINANCIAL INVESTMENTS

1.4.1 The MHCLG issued revised investment and MRP guidance in February 2018. As the MHCLG investment guidance focused particularly on non-financial asset investments, these are not covered in this report as they do not form part of the Council's Annual Investment Strategy for 2019/20.

1.4.2 The effective definition of a short-term investment as being repayable 'within 12 months' in the 2010 investment guidance, has been removed from the 2018 guidance. A long term investment is therefore now one for in excess of 365 days and this report has previously included this change.

1.4.3 The MHCLG MRP guidance focused particularly on expenditure on purchasing non-financial asset investments and again are not prevalent to this report.

1.5 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The specific roles of this officer (the Borough Treasurer) has been extended to include a series of roles in respect of the Capital Strategy and also a specific role in respect of investment in non-financial assets. CIPFA has extended the definition of treasury management and investments to include non-financial assets, which, at the same time, it terms as being non-treasury investments.

1.6 **ACCOUNTING STANDARDS**

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9

1.6.1 Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for financial assets.

1.6.2 IFRS 9 specifies how an entity should classify and measure financial assets and generally is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 replaces 'IAS 39, Financial Instruments - Recognition and Measurement'. It is meant to respond to criticisms that IAS 39 was too complex, inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

1.6.2 IFRS 9 requires Council's to charge assets to its revenue account based on their current value year on year, which is a change from previous practice. This would therefore be problematic if the value of the asset falls as this would leave a shortfall in Council finances.

1.6.3 Whilst this should not be material for vanilla treasury investments this is likely to be problematic for some funds e.g. property funds and non-treasury management investments dealt with in the Capital Strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries.

1.6.4 The Ministry of Housing, Communities and Local Government (MHCLG) has granted Councils a statutory override which means that Councils must still record the value of their assets but do not have to charge it to their revenue account. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

1.6.5 The aim is to require local authorities to account for fair value movements in financial instruments in accordance with proper practices as set out in the code on local authority accounting published by CIPFA

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 16

1.6.6 The new International Financial Reporting Standard (IFRS) 16 requires Councils as lessees to recognise assets and liabilities for all operating leases of more than a year on their balance sheets.

1.6.7 CIPFA has recommend to the Government that implementation of IFRS 16 should be delayed by one year until 2020/21 in the public sector. This will ensure that public sector accounts will be aligned to the Whole of Government Accounts. This does not therefore impact upon the TMSS for 2019/20. For next year however we will need to consider what changes required to the Capital Financing Requirement, external debt (other long-term liabilities), authorised limit and operational boundary, to allow for leases which were previously off balance sheet, being brought onto the balance sheet from 1 April 2020.

1.7 **HRA DEBT CAP**

In October 2018 the Government announced it was abolishing the HRA debt cap

from 29.10.18, therefore there is no longer a legal limit to the HRA CFR in this report.

1.8 STATUTORY REQUIREMENTS

1.8.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.8.2 The Act requires the Council to set out specific treasury strategies for borrowing and investments along with its policy for setting aside minimum revenue provision to cover debt repayments associated with borrowing to fund capital investment.

1.8.3 The strategies and policy are also prepared in accordance with the Communities for Local Government (MHCLG) MRP Guidance and the MHCLG Investment Guidance.

1.9 REPORTING REQUIREMENTS

1.9.1 The Council will receive and approve three main reports in 2019/20, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by a delegated Committee before being recommended to the Council. This role is undertaken by the Corporate**,** Resource Management and Governance Scrutiny Committee which has responsibility for scrutinising certain Council functions and activities, including maintaining an overview of the Council's governance, risk management and financial arrangements.

1.9.2 **Prudential and Treasury Indicators and Treasury Strategy (this report)**
The first and most important report is a forward looking report which sets the scene for the year and it 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 (TMSS) (how the investments and borrowings are to be organised); and
- An Investment Strategy (AIS) (the parameters on how investments are to be managed).

1.9.3 **A Mid-Year Treasury Management Report**
This report updates Members with the progress on the treasury and capital position, amending Prudential Indicators as necessary and whether the treasury strategy is meeting the Council's objectives or requires any policy revision due to economic or other factors.

1.9.4 **An Annual Treasury Report**
This report provides a comprehensive retrospective review for the financial year of all treasury policies, plans, activities and results.

1.9.5 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, (separate item on this Agenda) which provides 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.

1.9.6 The aim of this report is to ensure that all elected Members and Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

1.10 TREASURY MANAGEMENT POLICY STATEMENT AND PRACTICES (TMPs):

The treasury management team are updating the Treasury Management Policy Statement and Practices (TMPs) to take account of recent changes in the Codes and this will be reported to Members as usual with the Annual Report for 2018/19.

1.11 TREASURY MANAGEMENT STRATEGY FOR 2019/20

1.11.1 The strategy for 2019/20 covers two main areas:

CAPITAL

- The Capital Plans and associated Prudential Indicators;
- The Minimum Revenue Provision (MRP) Policy.

TREASURY MANAGEMENT

- 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 Annual Investment Strategy (AIS), which encompasses
- The Creditworthiness Policy; and
- The Policy on use of External Service Providers.

1.11.2 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.

1.12 TRAINING

1.12.1 The CIPFA Code requires the responsible officer (Section 151 officer) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Members received annual treasury management training on 4 December 2018 and further training will be arranged as required.

1.12.2 The training needs of treasury management officers are reviewed through the annual employee Performance, Development and Review process.

1.13 TREASURY MANAGEMENT CONSULTANTS

1.13.1 The Council uses Link Asset Services as its external treasury management advisors.

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

1.13.3 The Council 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 MRP POLICY 2019/20

2.1 The Council is required to settle an element of its accumulated General Fund Capital Financing Requirement (CFR) each year by way of a revenue charge (the Minimum Revenue Provision, 'MRP'). Local Authorities may also provide additional 'Voluntary Revenue Provision' if they wish to do so.

2.2 MHCLG guidance recommends the preparation of an annual statement of policy on making MRP for submission to the Council Meeting for approval. The terms of the original statement may be revised during the year subject to the revised statement being approved by the Council Meeting at that time. The guidance presents four 'ready-made' options for calculating MRP but other options are not ruled out provided they are consistent with the statutory duty to make prudent provision.

2.3 This statement of policy is effective from 1 April 2019, relating to the financial year 2019/20 and is unchanged from the current year's policy.

2.4 The Council's MRP Policy Statement will be reviewed on an annual basis and no changes are being introduced for 2019/20.

2.5 The Council's approach to calculating MRP is set out in Section 5 for approval.

3 CAPITAL PLANS AND PRUDENTIAL INDICATORS 2019/20 – 2021/22

3.1 The Council's capital expenditure plans are the key driver to the long term borrowing aspect of treasury management activity. The capital expenditure plans and the affordability of these are reflected in a number of prudential indicators. These are designed to assist in understanding the link between capital expenditure plans and the underlying need to borrow for treasury management purposes and provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.2 Relevant Prudential Indicators for Approval.

3.2.1 Capital Expenditure Plans Prudential Indicator

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the medium term financial planning cycle.

Future Government grant funding allocations beyond 2019/20 are relatively unknown. The 2019/20 and 2020/21 programmes reflect this and only contain schemes where funding is confirmed and approved prudential borrowing schemes. It should be noted that there is £61.227m committed to approved schemes beyond 2021/22. This will be included in the programme once plans and phasing are firmly determined.

Members are asked to approve the capital expenditure forecasts.

Capital Expenditure by Portfolio	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Adult Care Services	0.620	0.000	0.000
Children and Family Services	0.024	0.000	0.000
Communities and Housing	47.315	20.002	17.133
Economy and Regeneration	62.042	31.603	30.508
Education	29.992	0.784	0.000
Reform and Governance	24.762	7.899	8.035
Total Capital Expenditure	**164.755**	**60.288**	**55.676**
Non HRA	**146.096**	**45.700**	**38.583**
HRA	**18.659**	**14.588**	**17.093**

Other long-term liabilities: The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are intended to be financed by capital or revenue resources. Any shortfall of specific resources results in a borrowing requirement for the year.

Capital Expenditure	**2019/20 Non HRA £m**	**2019/20 HRA £m**	**2020/21 Non HRA £m**	**2020/21 HRA £m**	**2021/22 Non HRA £m**	**2021/22 HRA £m**
Total Capital Expenditure	146.096	18.659	45.700	14.588	38.583	17.093
Financed By:						
Capital Grants	41.864	0.000	12.669	0.000	18.715	0.000
Capital Receipts	4.539	0.456	0.000	0.000	0.893	0.000
Capital Contributions	2.994	0.000	2.085	0.000	0.000	0.000
Revenue Contribution	1.583	12.048	0.000	12.254	0.000	12.622
Borrowing Requirement for the Year	**95.116**	**6.155**	**30.946**	**2.334**	**18.975**	**4.471**

3.2.2 The Council's Borrowing Need: The Capital Financing Requirement – CFR Prudential Indicator

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR measures a vital component of the Council's Capital Strategy; the amount of historic (cumulative) capital spending that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need for a capital purpose. Any capital expenditure above which has not immediately been paid for through receipts, grants and contributions will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the CFR in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for them. The Council currently has £13.700m of such schemes within the CFR.

The Council is asked to approve the CFR projections below.

Capital Financing Requirement (CFR)	2019/20 £m	2020/21 £m	2021/22 £m
Non HRA CFR b/f	571.944	653.188	667.929
Borrowing requirement for the year (above)	95.116	30.946	18.975
Less MRP	(13.872)	(16.205)	(17.600)
Non HRA CFR c/f	**653.188**	**667.929**	**669.304**
HRA CFR b/f	138.428	143.753	145.205
Borrowing requirement for the year (above)	6.155	2.334	4.471
Less MRP	(0.830)	(0.882)	(0.902)
HRA CFR c/f	**143.753**	**145.205**	**148.774**
TOTAL CFR c/f	**796.941**	**813.134**	**818.078**

3.3 **The Capital Strategy 2019/20**

3.3.1 CIPFA published a revised Prudential Code in December 2017, which requires local authorities to produce a Capital Strategy each year with effect from 1 April 2019.

3.3.2 The aim of the Capital Strategy is to optimise the availability and effective use of resources to support capital investment and provide a framework that delivers capital projects that support and facilitate the achievement of the Council's priority outcomes.

3.3.3 The Capital Strategy sets out the long term context in which capital expenditure and investment decisions are being made and giving due consideration to both risk and reward, and the impact on the achievement of priority outcomes. With increasing commercialism, the Capital Strategy also considers the overall impact on the affordability of borrowing for capital investment against the overall financial position of the Council.

3.3.4 The framework is underpinned by a number of guiding principles including accountability and affordability to help ensure that the Council delivers a capital programme that is affordable, financially prudent and financially sustainable.

4. AFFORDABILITY PRUDENTIAL INDICATORS

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

4.2 **Relevant Prudential Indicators for Approval.**

4.2.1 **Estimates of the Ratio of Financing Costs to Net Revenue Stream**

This indicator identifies the proportion that financing costs (borrowing and other long term obligation costs net of investment income) are of the Council's net revenue streams.

The estimates of financing costs include current commitments and the proposals included in the medium term financial plans report.

	2019/20 %	2020/21 %	2021/22 %
Non HRA	8.45	9.36	10.10
HRA	10.80	10.83	10.67

4.2.2 **Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax**

This indicator illustrates the revenue financing costs associated with proposed changes to the three year capital programme recommended in the Cabinet Revenue Budget and Capital Programme Report elsewhere on this Agenda, compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the Band D Council Tax

	2019/20 £	**2020/21 £**	**2021/22 £**
Council Tax Band D	42.94	14.43	9.13

4.2.3 **Estimates of the Incremental Impact of Capital Investment Decisions on Housing Rent levels**

Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the Cabinet Revenue Budget Capital Programme Report elsewhere on this Agenda, compared to the Council's existing commitments and current plans, expressed as a discrete illustrative impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Incremental impact of capital investment decisions Housing Rent levels

	2019/20 £	**2020/21 £**	**2021/22 £**
Weekly Housing Rent Levels	0.62	0.24	0.48

5 MINIMUM REVENUE PROVISION POLICY (MRP) STATEMENT 2019/20

5.1 **General Principles and Practices**
The Council is required to pay off an element of 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').

5.2 The Council is recommended to approve the following MRP Statement.

5.3 **Link to Asset Life/Economic Benefit**

5.3.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG Guidance.

5.3.2 Asset Life and the period over which to charge MRP will be determined under delegated powers. Where possible and permitted by MHCLG Guidance, those periods will be consistent with the periods set out in the Council's depreciation policy.

5.3.3 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the MHCLG guidance, these periods will generally be adopted by the Council.

5.3.4 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

5.3.5 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

5.4 **Methods for Calculating MRP**

The following alternative methods for calculating MRP may be used under delegated powers where this is deemed appropriate. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. Alternatives include but are not limited to:

5.4.1 **The Annuity Method**
This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing or average PWLB rates.

5.4.2 **Equal Instalments of Principal**
MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

5.4.3 **Previously Supported General Fund Borrowing**
General Fund Borrowing that was previously supported through the RSG system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2015. As at 1 April 2019, the value of this borrowing will be £162.388m and the equal annual minimum revenue provision is £3.538m; the final instalment of which will be provided for by no later than 31 March 2065. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made.

The annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2065.

5.4.4 **Bespoke Repayment Profiles**
MRP is, for example, based on a pre-determined profile linked to a credit arrangement such as a Finance Lease.

5.5 **Voluntary Revenue Provision**
The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. The Council may in some circumstances apply VRP to

relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

5.6 **Local Exceptions to the Guidance**

The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets under Construction

No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Loans to third parties

The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that this provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties (including those made to group companies) as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan.

Borrowing in Lieu of Capital Receipts

The Council has concluded that provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Corporate Leadership Team (CLT) as 'Borrowing in Lieu of Capital Receipts'. The Corporate Leadership Team will also determine which capital receipts will be ring-fenced to the scheme and as the receipts are achieved they will be applied to repay the debt.

5.7 **The Application of Capital Receipts in Lieu of MRP**

Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making 'prudent' provision for debt repayment rather than using them for capital financing purposes.

As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

5.8 **HRA Capital Financing Requirement (CFR)**

MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146), as if they had not been revoked. This approach is consistent with paragraph 7 of the MHCLG Guidance on MRP.

The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

6 TREASURY MANAGEMENT STRATEGY FOR 2019/20 (TMSS)

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The Treasury Management Service ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that suffucient

cash is available to meet its service activity. This will involve both the organisation of the cash flow, and where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

6.1 CURRENT PORTFOLIO POSITION

6.1.1 The Council's forecast treasury portfolio position at 31 March 2019, with forward projections are summarised in the table below. The table details the actual external debt (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement, CFR), highlighting any over or under borrowing.

Gross Borrowing and the CFR	**31.03.19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Gross Borrowing	582.025	668.645	684.650	689.051
Other Long-term Liabilities	13.700	13.700	13.700	13.700
Total Gross External Debt	595.725	682.345	698.350	702.751
TOTAL CFR	**710.372**	**796.941**	**813.134**	**818.078**
Under Borrowing	114.647	114.596	114.784	115.327

It should be noted that the gross borrowing position in the table above assumes that future years borrowing requirements will be fully funded and as such the under borrowing position remains unchanged, with the gross borrowing position rising in line with the Capital Financing Requirement.

6.1.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits, one of these is:

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Council needs to ensure that its debt does not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This is a key indicator of prudence. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy (AIS).

For the purposes of the Prudential Code, debt or gross debt refers to the sum of borrowing and other long-term liabilities, as illustrated in the table above.

6.1.3 The Borough Treasurer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the medium term financial plans report.

6.2 TREASURY INDICATORS WITHIN THE PRUDENTIAL CODE - LIMITS TO BORROWING ACTIVITY

6.2.1 **The Council is asked to approve the following limits**

6.2.2 **The Operational Boundary for External Debt**

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. The Operational Boundary has been set a a level higher than the CFR to allow the Council some flexibility to forward fund its borrowing requirement should market rates mean it is economically advatageous to do so.

Operational Boundary	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Debt	822.300	854.300	886.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	**836.000**	**868.000**	**900.000**

6.2.3 **The Authorised Limit for External Debt**

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

Authorised Limit	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Debt	842.300	874.300	906.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	**856.000**	**888.000**	**920.000**

6.2.4 In previous years the Council was limited to a maximum HRA CFR through the HRA self-financing regime; this imposed a limit of £146.947m. However the Government has since announced the abolition of the HRA debt cap in October 2018.

6.3 PROSPECTS FOR INTEREST RATES

6.3.1 The Council has appointed Link Asset Services as external treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates.

6.3.2 The following table gives a summary of the Link Asset Services central view. PWLB forecasts are based on PWLB certainty rates.

		Bank Rate	**PWLB Borrowing Rates (including Certainty Rate adjustment)**			
			5-Year	**10-Year**	**25-Year**	**50-Year**
March	**2019**	0.75%	2.10%	2.50%	2.90%	2.70%
June	**2019**	1.00%	2.20%	2.60%	3.00%	2.80%
Sept	**2019**	1.00%	2.20%	2.60%	3.10%	2.90%
Dec	**2019**	1.00%	2.30%	2.70%	3.10%	2.90%
March	**2020**	1.25%	2.30%	2.80%	3.20%	3.00%
June	**2020**	1.25%	2.40%	2.90%	3.30%	3.10%
Sept	**2020**	1.25%	2.50%	2.90%	3.30%	3.10%
Dec	**2020**	1.50%	2.50%	3.00%	3.40%	3.20%
March	**2021**	1.50%	2.60%	3.00%	3.40%	3.20%
June	**2021**	1.75%	2.60%	3.10%	3.50%	3.30%
Sept	**2021**	1.75%	2.70%	3.10%	3.50%	3.30%
Dec	**2021**	1.75%	2.80%	3.20%	3.60%	3.40%
Mar	**2022**	2.00%	2.80%	3.20%	3.60%	3.40%

Appendix 2 provides a more detailed view and also draws together a comparison with Capita Economics forecasts for the next three financial years, for the short term (Bank Rate) and longer fixed interest rates (PWLB).

6.3.3 The flow of generally positive economic statistics after the quarter ended 30 June 2018 resulted in the Monetary Policy Committee (MPC) making the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report 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 March Brexit deadline. On the assumption that a Brexit deal in agreed in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

6.3.4 At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

6.3.5 The overall long-term trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed[2] has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25- 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

[2] The Federal Reserve System (also known as the Federal Reserve or simply 'the Fed') is the central banking system of the United States of America.

6.3.6 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

6.3.7 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.

6.3.8 The interest rate forecasts provided by Link Asset Services in paragraph 6.3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

6.3.9 **Balance of Risks to UK**

- 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 broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity comments
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling

in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- Further increases in interest rates in the US could spark a sudden flight of investment funds from more risky assets e.g. shares into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

The potential for **upside risks** to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- **Brexit:** if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

6.3.10 **UK Interest 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 while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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.

6.4 BORROWING STRATEGY 2019/20

6.4.1 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 is known as internal borrowing and is a prudent strategy as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.4.2 The next financial year is expected again to be one with of low Bank Rate. This provides a continuation of the current window of opportunity for the Council to monitor its strategy of undertaking new long-term external borrowing. Investment rates are again expected to be below long term borrowing rates during 2019/20 and so value for money considerations would indicate that value could still be best obtained by continuing to limit new external long-term borrowing, by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing).

6.4.3 The Council has however reiterated in a number of treasury management reports during the current financial year that long-term borrowing cannot be avoided indefinitely and neither can reliance on internal cash balances, or temporary loans being available from the market. Short term savings similarly need to be weighed against the potential for incurring extra costs by delaying unavoidable new external borrowing until later years, when PWLB long term rates are forecast to be higher. Members should note that the Council took £40m of external long-term borrowing in December 2018 as detailed in the final update Corporate Performance and Resources Report elsewhere on this Agenda, but still retains an overall internally borrowed position.

6.4.4 The interest rate forecast in Appendix 2 suggests long term (PWLB) rates will rise at a gradual pace over the next three financial years. In line with the Council's plans for capital investment in the Borough (paragraph 3), there are a number of substantial capital spending projects, incorporating a total of £101.323m prudential borrowing, that have been included in the prudential and treasury indicators and the Council's borrowing limits for 2019/20. The Council will almost certainly need to take on significant external borrowing to fund this spending during 2019/20.

6.4.5 In the Autumn Statement 2017, the Government announced that it is facilitating lending to local authorities of up to £1 billion of PWLB monies at discounted interest rates to support infrastructure projects that meet high value for money criteria. The new Local Infrastructure Rate will be set at gilts +60 basis points. Loans at the new interest rate are proposed to be available for a maximum term of 50 years. There is £500m available in the 2019/20 to be allocated by competition. The main disadvantages appear to be that bidding for a particular scheme would be quite onerous and the total amount available to all authorities is not a great deal to go round. As such the Council will consider if any of its infrastructure projects would fit this remit, taking into account the bidding process compared to the interest saving should the Council be successful in securing any of the funding.

6.4.6 **Municipal Bond Agency**

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider making use of this new source of borrowing as and when appropriate, however after years of delays in the Agency commencing trading it remains to be seen if this will get off the ground.

6.4.7 Indicators have therefore been built to accommodate this spending and also with a view to allowing the Council to externalise some of its internally borrowing (highlighted in the table in 6.1.1) should it see advantage in doing so. As a result, the indicator for the maximum amount of funds invested over 365 days in paragraph 7.8 and limits in Appendix 3 for longer term investments, have been set at £80m for 2019/20 and beyond. This will allow the Council the freedom to forward borrow this funding if advantageous in which case it is likely the funds will be invested for periods exceeding one year in line with the projected spending profiles of the various schemes. This may allow the Council to lengthen its investment portfolio and in doing so gain an enhanced return.

6.4.8 To summarise; in view of the prospects for interest rates the Councils borrowing strategy will give consideration to new borrowing in the following order of priority:-

- The cheapest borrowing will be internal borrowing by running down cash balances, however the scope to continue this is policy is somewhat limited.
- The Council will make use of temporary borrowing from the money markets/other local authorities throughout 2019/20 to supplement cashflow fluctuations, however this is also dependent on the availability of short-term loans in the market, which can vary throughout the financial year.
- Medium dated borrowing from non PWLB sources, i.e. up to five year loans from other local authorities if available and if it can be demonstrated that these provide a reasonable margin below the equivalent PWLB Certainty Rate. Longer term loans would also be considered as an alternative (up to ten years or more), but it is unlikely other councils would have the funds available over a longer timeframe.
- If longer-term interest rates look set to rise or the Council needs to externalise some of its internal borrowing then the Council will weigh up the cheapest long-term funding options. This will include PWLB borrowing at the Certainty Rate (20 basis points below the standard PWLB borrowing rates). All new longer-term borrowing will also be considered in relation to the current debt maturity profile of the Council. If long term fixed rate market loans are available at rates significantly below the PWLB Certainty rate, for the equivalent maturity periods and maintain an appropriate balance between PWLB and market debt, then these may be a favourable addition to the debt portfolio.

6.4.9 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Borough Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. **Sensitivity of the forecast**: In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

6.4.10 Target PWLB borrowing rates at which new long-term borrowing may be considered (as at Q1 2019) are: 5 year 2%, 10 year 2.50%, 25 year 2.90% and 50 year 2.70%. Please note rates around the 25 year period are the peak of the yield curve. In the UK Pension Funds buy up long dated gilts to match the investment term they are looking for, hence the price of the 50 year rises (because it is in demand) and the yield for that reason is lower. It therefore follows that the 30 year gilt yields in comparison are higher than the 50 year (they are not as sought). The same goes for the short end. In essence, there is less demand for the medium term than there is for the short and long end. Since there is an inverse relationship between the price and yield it leaves the medium term with the highest yields which in turn, the PWLB rates are derived from.

6.4.11 Any borrowing decisions will reported to Cabinet at the next available opportunity.

6.5 TREASURY INDICATORS WITHIN THE TREASURY MANAGEMENT CODE

TREASURY LIMITS ON ACTIVITY

6.5.1 There are three debt related treasury activity limits. Their 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 detailed in **Appendix 1** and 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:
Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Upper and Lower limits to the 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.

Note

- The indicators for upper limits set the upper value within which the Council will limit its exposure to both fixed and variable interest rate movements.

- The calculations are for net debt (fixed or variable rate debt *less* fixed or variable rate investments) and the limits have been set as a percentage of total net debt.

- The upper limit for net debt at fixed interest rates has been set at 100% as this could conceivably be the case during certain times of the year. This has been expressed as a percentage rather than a financial value.

- The Council favours certainty in its debt portfolios and consequently all its long-term PWLB borrowing is at fixed rates.

- The upper limit for variable rate interest exposure has been set at 40%, being the highest proportion of total net debt that can be subject to variable interest rates. As detailed in paragraph 6.4. above, the Council will be relying to some extent on short-term variable rate borrowing in the 2019/20 financial year; consequently this limit ensures such borrowing can be comfortably accommodated.

- The Council currently has £17.5m of Lenders Option Borrowers Option (LOBO) borrowing. According to the Prudential Code, the majority of the LOBO debt should be treated as variable for the purpose of the interest rate exposure indicators. However the Council's LOBO debt is long-term debt where the Council cannot exercise control over the rate, i.e. it is currently at a fixed rate (and maturity date) but subject to options (depending on the terms under each individual loan) being exercised by the lender (in which case the Council has the option to prematurely repay).

- CIPFA treats a LOBO's maturity as the next possible call or 'option date'. However in the current interest rate environment it is highly unlikely that any option would be exercised by the lender. As to whether a loan is variable or fixed, based on the CIPFA view, if the loan has a call date of <12 months then it is deemed variable and if the call date is >12 months, it is fixed.

- For the purposes of meaningful indicators in this area, this debt can be assumed to be fixed or variable.

6.5.2 All of the £17.5m LOBOs have options in the 2019/20 financial year, 2020/21 and 2021/22. These options could effectively be exercised by the lender and rejected by the Council favouring to repay the debt and replace it in-year with fixed term PWLB debt (however this is very unlikely as comparable long-term borrowing rates are lower than the rate at which the LOBOs are running. The lender would more likely request a rate change if the reverse were true and interest rates had moved up since the loan had been issued); this eventuality would support the approach of providing an upper limit of nearer to 100% for fixed interest rate exposure.

6.5.3 For the purposes of the Code, the indicator for variable rate debt has in recent years been set at 40% to accommodate LOBO borrowing. In practice however, the level of variable rate debt has been much less than 40%. Members will recall that it has been reported in 2016/17 and 2017/18 that £60m of LOBO loans (£30m Barclays and £30m RBS) have been converted into vanilla long-term loans with fixed maturity dates and no options. Although consequently there are significantly less LOBO loans that could be deemed as variable borrowing, this indicator has remained at 40% to allow for a greater proportion of temporary borrowing in the portfolio should it be required during 2019/20.

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

Interest rate Exposures	**Upper 2019/20 %**	**Upper 2019/20 %**	**Upper 2020/21 %**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2019/20		**Lower**	**Upper**
Under 12 months		0%	45%
12 months to 2 years		0%	45%
2 years to 5 years		0%	45%
5 years to 10 years		0%	45%
10 years and above		50%	100%

6.5.5 The Maturity Structure indicator assumes LOBOs could mature on their next call date (rather than their original maturity date) and so sufficient room has been built in to allow LOBO loans to mature in each period. A level of movement has also been allowed in the upper limits in the event that the Council takes long term borrowing during 2019/20.

6.6 POLICY ON BORROWING IN ADVANCE OF NEED

6.6.1 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 value for money can be demonstrated and that the Council can ensure the security of such funds.

6.6.2 In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6.6.3 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the thee year planning period, unless circumstances exist which indicate a clear case/financial advantage to the Council;
- Would not look to borrow more than 36 months in advance of need.

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

6.7 DEBT RESCHEDULING

6.7.1 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 size of the cost of debt repayment (premiums incurred).

6.7.2 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, and
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.7.3 Consideration will also be given to identifying if there is any residual potential left 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.

6.7.4 All rescheduling will be reported to the Cabinet at the meeting following its action.

7 ANNUAL INVESTMENT STRATEGY 2019/20 (AIS)

7.1 INVESTMENT POLICY

7.1.1 The Council investment policy has regard to the MHCLG'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') and CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, portfolio liquidity second, then return.

7.1.2 In accordance with guidance from the MHCLG 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.

7.1.3 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 this end 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.

7.1.4 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.

7.1.5 The Counterparty framework is aimed at ensuring there are sufficient investment options available to place funds with good quality counterparties/instruments in the event that the credit markets deteriorate. The critical objective in the 2019/20 has been to provide an investment strategy to Members that also provides the treasury function with sufficient options and names to be able to operate in normal circumstances. This will allow some flexibility to be available should the investment markets become more difficult. This approach will allow officers flexibility, i.e. to restrict the pool of available counterparties (approved by Members) if markets are more risky; officers may in this event restrict all investments to Money Market Funds, the use of Treasury Bills or short Gilts may similarly be worthwhile. The Treasury Manager will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any amendments will be reported, with supporting reasons in the next available opportunity. The treasury team will continue to monitor markets on a constant basis throughout 2019/20 and will keep Members informed if situations should warrant any change in view in the future.

7.1.6 Investment instruments identified for use in the financial year are listed in Appendix 4 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices (Schedules); however these are included in the Appendix for information.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

7.2 CREDITWORTHINESS POLICY 2019/20

7.2.1 It is the Council's policy to place appropriate parameters in terms of credit quality, to organisations with whom it invests.

7.2.2 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

7.2.3 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years *
Dark Pink	5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
Light Pink	5 years for Ultra Short Dated Bond Funds with a credit score 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

* Please note that the yellow category is for UK Government debt or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt (see Appendix 3)

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 1yr	up to 1yr	up to 6mths	up to 100 days	

7.2.4 Where a colour coded band is not provided for a particular investment instrument, the minimum criteria to be applied in detailed in Appendix 3.

7.2.5 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

7.2.6 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

7.2.7 All credit ratings will be monitored on an on-going basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

7.2.8 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support the decision making process .

7.2.9 **UK Banks (Ring Fencing)**

The largest UK banks, (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as 'ring-fencing'. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and 'riskier' activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

7.2.10 Ratings Criteria and comparisons are explained for the benefit of Members briefly in Appendix 4.

7.3 COUNTRY LIMITS

7.3.1 The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

7.3.2 The Council has not imposed a Country limit on the UK as its Country of domicile.

7.3.3 The Council has not implemented sector limits as the investment portfolio varies considerably in size during the year and any such policy is likely to be unworkable given the parameters already in place.

7.4 UK SOVEREIGN RATING

7.4.1 If there were to be a disorderly Brexit, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA to AA-. The current country limits allow for investments in countries whose sovereign rating is AA- from FITCH (or equivalent). In the exceptional circumstances that the UK sovereign rating were to fall below AA- then special dispensation would be immediately implemented for the Council to invest with UK banks with a sovereign rating below this AA- threshold (this would not apply to any other countries).

7.5 INVESTMENT STRATEGY

7.5.1 The Council's in-house managed funds will be made with reference to core balance and cash-flow requirements and the outlook for short-term interest rates (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*,* if there is opportunity and 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.

7.5.2 **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:

2019/20	1.25%
2020/21	1.50%
2021/22	2.00%

7.5.3 Forecast investment levels, based on expectations for Bank rate, are provided in the table below.

		Money Market Investment Rates (LIBID)		
		3-Month	**6-Month**	**1-Year**
March	**2019**	0.90%	1.00%	1.20%
June	**2019**	1.00%	1.20%	1.30%
Sept	**2019**	1.00%	1.30%	1.40%
Dec	**2019**	1.20%	1.40%	1.50%
March	**2020**	1.30%	1.50%	1.60%
June	**2020**	1.40%	1.60%	1.70%
Sept	**2020**	1.50%	1.70%	1.80%
Dec	**2020**	1.50%	1.70%	1.90%
March	**2021**	1.60%	1.80%	2.00%
June	**2021**	1.70%	1.90%	2.10%
Sept	**2021**	1.80%	2.00%	2.20%
Dec	**2021**	1.90%	2.10%	2.30%
March	**2022**	2.00%	2.20%	2.40%

7.5.4 The overall balance of risks to these forecasts based around 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.

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

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

7.5.6 The Council will avoid locking into longer term investments (over 365 days) for its ‘core’ cash, while investment rates are down at low levels and will look to keep investments short-term/liquid in line with cashflow requirements. If attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and providing they are within the risk parameters set by this Council, they will be given consideration. However, without taking any new long-term external borrowing, investments in excess of 365 days are unlikely in 2019/20 as the Council will not have resources to commit funds for longer term durations.

7.5.7 As recognised under the Borrowing Strategy in paragraph 6.4 the Council could externalise some of its borrowing in 2019/20 and take on additional long-term funding to fund major capital regeneration projects. If this is the case the Council may have ‘non-core’ cash which it will look to invest over a longer time frame, particularly if the Council has borrowed ahead of need and spending on these capital schemes will be phased. This scenario would mean the Council would consider longer term investments at enhanced levels and this may involve considering alternative investment products, as detailed in paragraph 7.6.

7.5.8 The budgeted return of 1.00% for 2019/20 assumes an average investment duration of up to three months and is in line with the forecast LIBID rate for the period. This return will be revised upwards if the Bank Rate starts to increase earlier, or if the Council places significant investments for longer periods than 3 months.

7.5.9 For its cash flow generated balances, the Council will utilise Money Market Funds (MMF), instant access and notice accounts and some short-dated deposits (overnight to 100 days). The primary function of a MMF is to cater for cash of less than 30 days that needs to be managed for maximum safety, liquidity and yield. MMF’s are AAA rated and therefore provide robust safety and invest in a diversified portfolio of short term, high quality debt instruments. They provide the benefit of pooled investments. The assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns. The best funds from a security point of view have a triple-A status.

7.6 **New Investment Opportunities**

7.6.1 The Council remains 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 0.75% Bank Rate. As a consequence, the Council is not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and

search for that extra return to ease revenue budget pressures. In this respect, we are seeing an increase in investment ‘opportunities’ being offered to councils or being discussed in the wider press. As a result the Council will consider the following when deliberating such investments.

7.6.2 **The Council will not look at just the return but at the product** considering what is ‘under the bonnet’ if contemplating pooled investment vehicles. This applies to any investment opportunity. It is not enough that other councils are investing in a scheme. The treasury management team, is tasked through market rules to understand the product and appreciate the risks before investing. A quote from the Financial Conduct Authority puts the environment in context.

The main risks in the industry for the coming year are firms designing products that:

- aren’t in the long-term interest of consumers
- don’t respond to their needs
- a lack of transparency on what’s being sold
- a poor understanding by consumers of risk
- a shift toward more complex structured products that lack oversight.

7.6.3 **Alternative investment instruments**

The particular asset classes include the following:

- Ultra Short Dated Bond Funds
- Corporate Bonds - direct, passive and active external management
- Property Funds
- Equity Funds
- Multi Asset Funds

7.6.4 There are varying degrees of risks associated with such asset classes and these need comprehensive appreciation. It is not just credit risk that needs to be understood, but liquidity and interest rate/market risk as well, although these can often be intertwined. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. By carefully considering and understanding the nature of these risks, an informed decision can be taken.

7.6.5 **Challenger Banks**
The Council has not included Challenger Banks in their counterparty list so far. At present, they do not have credit ratings and so therefore fall outside the Council’s investment strategy criteria. However, we expect that some of these entities may get ratings in coming years and will therefore continue to keep this area under review.

7.6.6 **Local Authority Mortgage Scheme (LAMS):** This Scheme is for first time buyers who can afford mortgage repayments and who meet the strict lending criteria applied by the mortgage lenders, but who do not have access to the substantial deposits now required. The Scheme has been designed to minimise the financial impact on the local authority and to operate as a partnership with a financial institution (bank). Participating local authorities set aside a sum of money to act as a financial indemnity for the partner mortgage lender. This indemnity enables the applicant to apply for a mortgage with only a 5% deposit as opposed to the deposits of around 10% to 20% now required by most mortgage lenders.

Expenditure under LAMS is classed as capital expenditure. It should be noted that the funds that the Council has placed with the mortgage lender/partnership bank are

classed as being a policy investment rather than a treasury management investment and is therefore outside the specified/non-specified investment categories.

7.7 POLICY ON USE OF FINANCIAL DERIVATIVES

7.7.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

7.7.2 The Council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. This will be determined in liaison with the Council's external advisors

7.7.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit if applicable.

7.7.4 At all times the Council will comply with CIPFA accounting practice, advice and guidance, relevant statutory powers and any legal opinion on the use of derivatives.

7.8 The Council is asked to approve the following treasury indicator

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.

Maximum principal sums invested >365 days	2019/20 £m	2020/21 £m	2021/22 £m
Long-term Investments	£80m	£80m	£80m

As discussed earlier in the report, this long-term investment limit has been set at £80m for 2019/20. Since the Council anticipates it may take significant amounts of long-term borrowing to fund major capital schemes during 2019/20, this indicator will allow the Council the capacity to invest the funds over a longer time frame, where spend on these schemes may be phased or where it may be advantageous to borrow ahead of need; particularly where interest rates are lower but forecast to rise. This will also mean the Council’s investment portfolio will be lengthened and this in turn will enhance return in line with the yield curve.

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.

9. TREASURY MANAGEMENT SCHEME OF DELEGATION

The Council's constitution reflects the following roles and responsibilities:

9.1 **The Council:**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of the annual strategy;

9.2 **The Cabinet:**

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

9.3 **Corporate, Resource Management & Governance (CRMG) Scrutiny Committee:**

- reviewing the treasury management strategy, policy and procedures and making recommendations to the responsible body.

9.4 **Treasury Management Role of the Section 151 Officer, the Borough Treasurer:**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management). The specific roles of this officer (the Borough Treasurer) have been extended to include a series of new roles in respect of the Capital Strategy and also a specific role in respect of investment in non-financial assets. CIPFA has extended the definition of treasury management and investments to include non-financial assets, which, at the same time, it terms as being non-treasury investments.

Section 151 Officer additional roles are as follows:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, over a longer timeframe that the current three year programme;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees if applicable;
- ensuring that Members are adequately informed and understand the risk exposures taken on by the authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

  1. Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  2. Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  3. Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  4. Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
  5. Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 The Council Meeting is recommended to approve:

- The Minimum Revenue Provision Policy for 2019/20;
- The Capital Expenditure forecasts and Capital Financing Requirement projections;
- The Treasury Management Strategy 2019/20;
- The Treasury and Prudential Indicators and limits 2019/20-2021/22;
- The Annual Investment Strategy 2019/20.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian on Tel: 0161 474 4026 or by email on lorna.soufian@stockport.gov.uk

APPENDIX 1

Prudential and Treasury Indicators 2019/20 - 2020/21

Treasury Indicators

	2019/20 Budget £M	2020/21 Budget £M	2021/22 Budget £M
Authorised limit for external debt	856.000	888.000	920.000
Operational boundary for external debt	836.000	868.000	900.000
Gross external debt	682.345	698.350	702.751

Maturity Structure of fixed rate borrowing upper and lower limits

Period	2019/20 Lower	2019/20 Upper
Under 12 months	0%	45%
12 months to 2 years	0%	45%
2 years to 5 years	0%	45%
5 years to 10 years	0%	45%
10 years and above	50%	100%

Interest rate limits

	2019/20 Budget %	2019/20 Budget %	2020/21 Budget %
Upper limit of fixed interest rates based on net debt	100%	100%	100%
Upper limit of variable interest rates based on net debt	40%	40%	40%

Principal Sums

	2019/20 Budget £M	2019/20 Budget £M	2020/21 Budget £M
Upper limit for principal sums invested over 365 days	80	80	80

Capital Indicators

	Budget 2019/20 £000	Budget 2019/20 £000	Budget 2020/21 £000
Capital expenditure	164.755	60.288	55.676
Capital Financing Requirement (CFR)	796.941	813.134	818.078
Annual change in CFR	86.569	16.193	4.944
In-year borrowing requirement (excluding MRP)	101.271	33.280	23.446
Ratio of financing costs to net revenue stream (non HRA)	8.45%	9.36%	10.10%
Ratio of financing costs to net revenue stream (HRA)	10.80%	10.83%	10.67%
Incremental impact of capital investment decisions:			
Increase in council tax (band change) per annum	£42.94	£14.43	£9.13
Increase in average housing rent per week	£0.62	£0.24	£0.48

APPENDIX 2

INTEREST RATE FORECASTS 2019-2022

The data below shows a variety of forecasts published Link Asset Services and Capital Economics (an independent forecasting consultancy). Forecast PWLB rates shown below have taken into account the 20 basis point Certainty Rate reduction effective as of 1 November 2012.

Link Asset Services	Mar-2019	Jun-2019	Sep-2019	Dec-2019	Mar-2020	Jun-2020	Sep-2020	Dec-2020	Mar-2021	Jun-2021
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%
Bank Rate										
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-
5 Year PWLB Rate										
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-
10 Year PWLB Rate										
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-
25 Year PWLB Rate										
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-
50 Year PWLB Rate										
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-

Forecasts in the table above are for a shorter duration than in 6.3 of the main report as Capita Economics does not forecast as far ahead.

APPENDIX 3

ANNUAL INVESTMENT STRATEGY

CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED & NON-SPECIFIED INVESTMENTS 2019/20

SPECIFIED INVESTMENTS

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. Definitions of equivalent credit ratings are given in Appendix 4.

NON-SPECIFIED INVESTMENTS

These are any investments which do not meet the Specified investment criteria. A maximum of £80m will be held in aggregate in non-specified investments, for a maximum duration of 5 years.

The use for each investment class is 'in house' only.

A variety of investment instruments will be used, subject to the credit quality of the institution and depending on the type of investment made it will fall into one of the Specified of Non-Specified categories.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of higher creditworthiness and/or restricted time limits.

COLOUR BAND CREDIT CRITERIA

The Council will use counterparties within the following durational bands:

- Yellow 5 years **
- Dark Pink 5 years for enhanced money market funds (EMMF) credit score of 1.25
- Light Pink 5 years for enhanced money market funds (EMMF) credit score of 1.50
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

** This category is for AAA rated Government debt only or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Gov Debt.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are as follows:

Please note all investment classes listed in the table meet the Specified Investment criteria; the only difference making an investment category Non-Specified are for durations exceeding 1 year (i.e. credit criteria is not reduced for non-specified investments, in fact the opposite is true as counterparties identified under the orange band or above for investment

durations of 1 year or more are of higher credit quality, implied by the recommended longer duration colour.

<table>
<tr><th colspan="5">SPECIFIED & NON-SPECIFIED INVESTMENTS

SPECIFIED (INVESTMENTS UNDER 1 YEAR)
NON-SPECIFIED (INVESTMENTS EXCEEDING 1 YEAR)</th></tr>
<tr><th></th><th colspan="2">Minimum Credit Criteria/Colour Band</th><th>Max % of total investments/or £ limit per investment type</th><th>Maximum Maturity Period</th></tr>
<tr><td>Debt Management Agency Deposit Facility (DMO)</td><td colspan="2">AAA</td><td>100%</td><td>6 months</td></tr>
<tr><td>Term Deposits: Local Authorities (including Combined Authorities and other government public authorities, e.g. Police, Fire and Waste Authorities)</td><td colspan="2">NA</td><td>100%</td><td>Up to 5 years</td></tr>
<tr><td rowspan="7">Term Deposits: Banks & Building Societies</td><td colspan="2">Yellow</td><td>£60m</td><td>Up to 5 years</td></tr>
<tr><td colspan="2">Purple</td><td>£80m</td><td>Up to 2 years</td></tr>
<tr><td colspan="2">Blue</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td colspan="2">Orange</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td colspan="2">Red</td><td>100%</td><td>Up to 6 months</td></tr>
<tr><td colspan="2">Green</td><td>100%</td><td>Up to 100 days</td></tr>
<tr><td colspan="2">No Colour</td><td colspan="2">NOT TO BE USED</td></tr>
<tr><td>Term Deposits: wholly owned subsidiary bank or building society explicit guarantee from parent or Government[1]</td><td colspan="4">As above (criteria for Term Deposits with Banks & Building Societies)/or explicit Gov guarantee (Sovereign Rating AA-)</td></tr>
<tr><td colspan="5">Term Deposits with Nationalised Banks & Building Societies operating with Government guarantees</td></tr>
<tr><td>UK Nationalised Banks/Part Nationalised Banks (UK Sovereign Rating)[2]</td><td colspan="2">Blue</td><td>£20M</td><td>Up to 1 year</td></tr>
<tr><td>Government guarantee (explicit) on ALL deposits by high credit rated (sovereign rating) countries[3]</td><td colspan="4">Sovereign Rating AA-/Sovereign Rating of UK</td></tr>
<tr><td colspan="5">Other Instruments</td></tr>
<tr><td>Collateralised Deposit[4]</td><td colspan="2">UK Sovereign Rating</td><td>£50m</td><td>3 years</td></tr>
<tr><td rowspan="7">Certificates of deposit (or Corporate Bonds) issued by banks and building societies (and banks and building societies covered by Government (explicit) guarantee)</td><td rowspan="7">Sovereign Rating AA-</td><td>Yellow</td><td>£60m</td><td>Up to 5 years</td></tr>
<tr><td>Purple</td><td>£80m</td><td>Up to 2 years</td></tr>
<tr><td>Blue</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td>Orange</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td>Red</td><td>100%</td><td>Up to 6 months</td></tr>
<tr><td>Green</td><td>100%</td><td>Up to 100 days</td></tr>
<tr><td>No Colour</td><td>NA</td><td>NOT FOR USE</td></tr>
<tr><td>UK Government Gilts</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>5 years</td></tr>
<tr><td>Bonds issued by multilateral development banks</td><td colspan="2">AAA</td><td>100%</td><td>6 months</td></tr>
<tr><td>UK Government Treasury Bills</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>5 years</td></tr>
<tr><td colspan="5">Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):</td></tr>
<tr><td>Government Liquidity Funds</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds CNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds LVNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds VNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Ultra Short Dates Bond Funds (with a credit score of 1.25)</td><td colspan="2">AAA/Dark Pink</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Ultra Short Dated Bond Funds (with a credit score of 1.50)</td><td colspan="2">AAA/Light Pink</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Bond Funds</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Gilt Funds</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>Liquid</td></tr>
<tr><td colspan="5">Structured Deposits</td></tr>
<tr><td>Fixed term deposits with variable rate and variable maturities: Structured Deposits</td><td colspan="2">Yellow</td><td>£40m</td><td>Up to 5 years</td></tr>
<tr><td>Property Funds</td><td colspan="4">A full risk evaluation of any fund will be undertaken prior to investment in conjunction with Link Asset Services and reported to Members</td></tr>
</table>

Notes

1. If a deposit is to be placed with subsidiary of a parent bank and the subsidiary does not have a credit rating in its own right, then details of the guarantee from the parent must be sought prior to the investment being placed. The Council will only rely on unconditional guarantees.

2. Currently refers to the Royal Bank of Scotland PLC and National Westminster Bank PLC (ring-fenced banks).

3. Specifically applies to Approved Countries detailed in Appendix 5 with a minimum AA- sovereign rating. Please note, should the UK sovereign rating be downgraded by the credit rating agencies below AA- as a result of Brexit, special dispensation will allow the Council to continue to invest with UK banks and financial institutions that otherwise meet its investment criteria.

[4] As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a Local Authority.

If forward deposits are to be made, the forward period must be included as part of the deal period (i.e. for deposits of less than one year, the deal period should not exceed one year in aggregate).

INDIVIDUAL FINANCIAL LIMITS (SPECIFED & NON-SPECIFIED INVESTMENTS)

Institution	Financial Limit £m
DMO	No Limit
Banks (including nationalised and part nationalised)	10
UK Building Societies	10
UK Central Government	No Limit
UK Local Authorities (including Combined Authorities and other government public authorities, e.g. Police, Fire and Waste Authorities)	10
Collateralised Deposit (Local Authority backed)	10
Multilateral Development Banks	10
Money Market Funds (and other OCEIs)	10

CORPORATE BOND FUNDS, CORPORATE BONDS, EQUITY FUNDS & PROPERTY FUNDS

These types of funds are essentially VNAV (Variable Net Asset Value) funds, i.e. NAV changes on a daily basis. Link Asset Services does not have a specific duration or monetary limits on these investment instruments. As such it is suggested that investment into these types of instruments requires a medium term investment strategy (2-5 years+) in order to achieve a reasonable amount of return, both income and capital gain, enhancing returns against the conventional deposits. Please note that not all of these funds are rated by agencies, so risk analytics must be carried out on an individual fund by fund basis; focusing on, for example, portfolio holdings, diversification of assets, past returns, fund manager experience, fees, asset class forecasts etc.

If considering investing into individual corporate bonds the Council will use the same criteria as that for individual financial institutions. Corporate Bonds are usually grouped by credit rating as follows:

- Investment-grade bonds (BBB or higher)
- High yield/Speculative/Junk bonds (BB and below) **assumed to have a high level of risk and therefore not considered**

Corporate Bonds as an asset class are at the higher end of the risk curve. They have high market risk as the price of the bonds moves day to day and will move with greater volatility than, say, gilts as they have a lower credit rating. Liquidity risk is high as it would be difficult to sell a bond whose issuer is perceived to be performing poorly. Credit risk is high as very few, if any, Corporate Bonds would have the same credit quality as a Gilt or Supranational.

Please note investing in a Property Fund would constitute capital expenditure.

WHOLLY OWNED SUBSIDIARIES

Institutions who do not have an individual credit rating but who are wholly owned (subsidiary):

Applies to:
Institutions that do not have an individual credit rating but who are wholly guaranteed by a parent institution, which meets the Council's minimum lending criteria, for that particular type of institution, or who are wholly guaranteed by the UK Government.

In this instance the parent institution or guarantor's creditworthiness will be taken as the basis for the investment.

Investment limits will apply to both the Parent and its guaranteed subsidiary in total, i.e. the subsidiary in this case will account for its parent's credit limit; one limit will apply as the subsidiary effectively does not have its own limit or credit rating.

UK Government guarantees can apply to any institution.

GROUP LIMITS

Group limits apply where a number of financial institutions are under one ownership i.e. are part of the same banking group; in this instance the 'Group' limit is the same as the individual limit for any one institution within that group, as financial exposure should be limited to the Group as a whole.

DETERMINING INSTITUTIONS UNDER THE SAME OWNERSHIP

In determining which banks are part of the same banking group reference will be made to the banking list provided by Link Asset Services.

This list should not be used as a prescriptive list as it is simply impossible to monitor the mergers and acquisitions of all banks and institutions on a global level. FITCH ratings also take this view and do not supply a prescriptive list of all groups. However, it should be noted that Link Asset Services endeavour to keep this as up to date as possible for merger/acquisition activity in the market.

CONSIDERING DEGREE OF OWNERSHIP & COUNTRY OF SOVEREIGNTY

Regarding the degree of ownership of banks and in particular looking at UK institutions, rating agencies specify where the banks are domiciled but this is not to say that this country will support the bank in the event of default. The banks themselves also do not tend to specify which country would support them as the circumstances surrounding a default and how a default would unfold is unknown.

As the degree of ownership is not known either, 'Groups' covers any financial institutions in the same/related group despite degree of ownership.

Looking at the Banking Act 2009 this highlights the powers that can be used in the UK if needed. It states that the objective is to protect and enhance stability, protect UK funds etc.,

1. ‘bank’ means a UK institution which has permission under Part 4 of the Financial services and markets act 2000 to carry out regulated activity of accepting deposits’

2. ‘UK institution’ means an institution which is incorporated in, or formed under the law of any part of the UK.

Therefore:

If a bank in the UK is set up as a subsidiary in the UK, in that it is established as such as a legal entity in the UK, then despite its parentage and the country of origin, it should be recognised as a UK bank. This is the case for Santander UK PLC and so the Sovereign rating to be applied would be that of the UK.

If, alternatively, the Bank has a branch in the UK and does not meet the above criteria, then the Bank is effectively extending its base platform into another country through a branch network and should be recognised in the Country where its head office resides, i.e. the First Abu Dhabi Bank has branches in the UK however it is domiciled in the UAE - the Sovereign rating to be applied would be that of the UAE.

Link Asset Services 'Credit List' issued on a Friday each week gives counterparties per sovereign country to clarify where uncertainties arise, so for example,

Santander UK PLC is part of the Banco Santander Group; when making an investment one should refer to the Sovereign rating of the UK as it is a UK subsidiary of a Spanish bank with whom the investment would be placed. When investing with Santander UK PLC up to the individual limit of £10m, no further investments may be made within the Banco Santander Group for the duration of the investment; the same would apply when investing with Banco Santander except the Sovereign rating in this instance would be that of Spain.

If uncertainty exists to the Sovereign Country the dealer must check with Link Asset Services prior to making any investment.

It should however be noted that the Treasury Manager will, for the most part, manage the Counterparty list and banks will be listed according to their Group structure and Sovereign Country. It is only expected that in cases where there is a need for an additional bank to be added at short notice, i.e. when there is a shortage of Counterparties with whom an investment can be made, that a reserve dealer would make the necessary checks.

SPECIFIED V. NON-SPECIFIED

With the unceasing flow of investment products and their increasing sophistication it is more difficult to categorise many investment instruments definitively as Specified or Non-Specified. The Council will determine that split given the following:-

- the level of expertise and experience available in house in the treasury management function;
- the level of expertise and experience available through support provided by external consultants or other services;
- the degree of research and understanding required to fully understand all the risks attached to an investment instrument;
- the nature of controls that need to be put in place to manage those risks;
- how complex, or otherwise, it would be for the treasury management team to use an investment instrument in practice in the first place, and then to manage it;
- the level of staff resource available to the treasury management function the level of expertise and experience of councillors in treasury management.

APPENDIX 4

CREDIT RATING COMPONENTS

Link Asset Services creditworthiness service uses ratings from all three major rating agencies, namely; Fitch, Moody's and S&P. Each agency has its own credit rating components to complete their rating assessments.

FITCH

Long Term Rating
These generally cover maturities of up to five years. Given the larger time horizon over which the long-term rating is determined, the emphasis is on the assessment of the on-going stability of the institution's prospective financial condition, for example, the sensitivity to fluctuations in market conditions, the capacity for maintaining profitability or absorbing losses in a difficult operating environment.

Short Term Rating
These cover obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments.
The Far Eastern crisis in 1997 demonstrated that the short-term rating could be insufficient when viewed in isolation. The long-term rating adds an important dimension in evaluating the vulnerability of an institution to rapid changes in economic conditions and therefore gives a better perspective on overall creditworthiness.
It must be remembered, though, that the long-term rating of any financially weak institution with strong external support is susceptible to any diminution, actual or perceived, in that support, as occurred when the state guarantee to the German Landesbanks was terminated on 18 July 2005.

MOODY'S

Long Term Rating
Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised.

Short Term Rating
Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

STANDARD & POOR'S

Standard & Poor's' ratings comprise of two components;

Long Term Rating
Long Term credit ratings are based, in varying degrees, on the following considerations:

Likelihood of payment - capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;

Nature of and provisions of the obligation;

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default

Short Term Rating
Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days-including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations.

COMPARISON OF RATINGS

Nearest equivalent comparisons are made in the tables below.

Short Term

Fitch	Moody's	S&P
F1+	P-1	A-1+
F1		A-1
F2	P-2	A-2
F3	P-3	A-3
B		B
C		C
D		D

Long Term

Fitch	Moody's	S&P
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC+	Caa1	CCC+
CCC	Caa2	CCC
CCC-	Caa3	CCC-
CC+	Ca	CC+
CC	Ca	CC
CC-	Ca	CC-
C+	C	C+
C	C	C
C-	C	C-
DDD	D	DDD
DD	D	DD
D	D	D

APPENDIX 5

APPROVED COUNTRIES

FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher as at 01.08.19 (showing the lowest rating from Fitch, Moody's and S&P) and also, (except, at the time of writing, for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA	AA+	AA	AA-
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	USA	France	Qatar
Denmark		Hong Kong	
Germany		UK	
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

Explanation of Sovereign Ratings

The above uses Fitch as a basis for Country sovereign ratings. Below provides a guide as to what the relative ratings mean.

AAA: Highest credit quality.
'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality.
'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality.
'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality.
'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB: Speculative.
'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

B: Highly speculative.

‘B’ ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC: Substantial credit risk.
Default is a real possibility.

CC: Very high levels of credit risk.
Default of some kind appears probable.

APPENDIX 6

EQUALITIES IMPACT ASSESSMENT

Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2019/20

Title: **Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2019/20 (TMS, AIS & MRPP)**	**Date: 1 February 2019**
	Stage: Final
	Service Area: Corporate and Support Services
	Lead Officer: Lorna Soufian

Stage 1: Do you need to complete an Equality Impact Assessment (EIA)?
Not all policies will require an EIA: these key questions will help you to decide whether you need to conduct an EIA (see guidance notes at the end of this form).

The following EIA is required as the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2019/20 (TMS, AIS & MRPP) is a key strategic policy of the Council.

The Council's priorities (outlined in the Council Plan) guide how the Council's funds are allocated and prioritised; the TMS, AIS & MRPP is accordingly focused on these principles. A separate EIA has been produced on the Council's priorities and as such it is not within the scope of this EIA to consider where money is allocated.

The Council is required to operate a balanced revenue budget, which broadly means revenue cash raised during the year will meet its revenue cash expenditure. The primary function of the Treasury Management Service is to ensure 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 before considering investment return.

The second main function of the Treasury Management Service is to arrange the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially this is longer term cash flow planning to ensure 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 existing debt 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.

The Treasury Management Strategy (TMS) includes a number of treasury and prudential indicators together with a broad over-arching requirement to specify the Council's Capital Financing Requirement (CFR), which denotes the Council's underlying need to borrow for capital purposes, in addition, the Council must ensure that external debt is kept within sustainable, prudent limits.

Treasury Management therefore creates the link between the Council's CFR and the structure of its external debt. Like the Council's borrowing limit (Operational Boundary) these are of direct relevance to the day to day financial management of the Council. Due to the size, complexity and importance of the income generated from treasury management activities it is important that all associated risks are assessed and managed. The Strategy reflects practices for controlling interest rate exposure, the maturity structure of the Council's borrowing and the risks associated with investment.

Policy Aims:
To provide a strategy based upon the latest CIPFA Treasury Management Code of Practice, which

enables the Financial Management Service to operate the Council's treasury management function within the parameters approved by the Council. The policy aims to establish the Council's Treasury Management operating framework for the 2019/20 financial year, which includes specific criteria in respect of both borrowing and investment activities.

The intention of the TMS, AIS & MRPP is to set out how the capital spending plans are to be considered and in conjunction with this, develop an integrated treasury management strategy. The Strategy does this by setting out the policies and objectives of the Council's treasury management activities for the forthcoming financial year and thus assists the Council in achieving its overall approved policies, strategies and plans.

The TMS, AIS & MRPP supports:
- Effective financial planning and management contributes to the transformation, development and improvement of the Authority;
- Organising treasury management activities in line with the Council's approved policies, strategies and plans;
- Producing a TMS, AIS & MRPP ensures that resources are available when needed and the effective management of liquidity means there are no additional unbudgeted costs, so that the Council's business/service objectives are not compromised.
- Making the most of opportunities to improve the yield from the Council's investments within appropriate risk parameters;
- Utilising treasury management performance measures to assess the effectiveness of the treasury management function by using a combination of performance indicators, trend analysis, benchmarking and year on year comparison;
- Demonstrating value for money of the treasury management function and generating efficiencies;
- Ensuring that the Council's financial standing is robust, stable and sustainable, including the maintenance of cash balances; the Annual Investment Strategy (AIS) will lay down principals to determine the amount of funds that can be prudently committed, relevant considerations include the relationship between overall funds and foreseeable spending needs, together with the need to make provision to maintain adequate reserves.

This TMS, AIS & MRPP is split into two distinct areas:

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

Treasury Management
- 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
- policy on use of external service providers.

Stage 2: What do you know?
An EIA should be based upon robust evidence. This stage will guide you through potential sources of information and how to interpret it. Understanding the current context is a key stage in all policy making and planning (see guidance notes at the end of this form).

The terms/scope of these policies and statements are driven by statute and best practice.

Regulatory Framework
The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits.

Under the Act, Communities and Local Government has issued Guidance on Local Government Investments to structure and regulate the Council's investment activities.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 - Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Prudential Framework for local authority capital investment introduced through the Local Government Act 2003 supports the Council's strategic plans for Capital Investment at a local level.

The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (the Code of Practice).

CIPFA revised the Code of Practice in December 2017 following developments in the market place and the introduction of the Localism Act for English local authorities. The Code was subsequently revised in December 2017 to respond to the increase in commercial local authority investment activity.

The Council has adopted the CIPFA Code of Practice and operates its treasury management service in compliance with the Code and the above legislative and regulatory framework.

The Council is solely responsible for the treasury management strategies and policies as it only concerns treasury management activity within the Council.

The Strategy and policies are implemented by the Council (Corporate and Support Services, Finance) following approval by the Council Meeting.

The Treasury Management Strategy provides a framework within which the Council will operate its Treasury Management function covering lending and borrowing activities and the management of cash flows. In addition to specifying limits and providing guidance with regard to borrowing and lending activities, the statements also aim to ensure that investments are only placed with suitable counterparties. The principle that overrides all others is that the security of the council's money outweighs all consideration of returns.

The Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy have all been drafted in accordance with statute and best practice guidance. Best practice guidance has been developed and improved by CIPFA on an on-going basis since 1992. Updates and revisions have been the subject of careful development and consultation at a national level with all major stakeholders (for example, local and central government, the audit commission, financial institutions, treasury management advisers and specialists etc).

Factors to ensure success:

- Adherence to the principles and guidance set out in the Strategy Statement;
- Stability in planning frameworks together with regular reviews of treasury management activity and performance.

Factors which may make it difficult to achieve these outcomes:

- Volatility in financial markets and the wider economy making it difficult to make optimum borrowing and lending decisions;
- Having sufficient access to counterparties with a strong credit rating to enable the Council to protect its investments.

Stage 2a: Further Data and Consultation

If you feel that the data and past consultation feedback you have is not sufficient to properly consider the impact before a decision is made then you may wish to supplement your evidence base with more data or further consultation. This should be proportionate to the scale of the decision and will depend on the gaps in your current understanding (see guidance notes at the end of this form).

The TMS, AIS & MRPP is based on the Council's priorities as detailed in the Council Plan.

Equality legislation requires the Authority to address equality needs of different groups of people (relating

to race, gender and disability) in the design and delivery of its services. The Treasury Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2019/20 does not directly impact on any of the services provided to the Council's stakeholders or how those services are structured. However the success of the Policy will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

In the consideration of the Council's Treasury Management Strategy and its equality obligations the Council will be mindful of the equality implications within the Borough of both the policy and any subsequent amendments.

The Council does not knowingly invest in non-ethical investments.

Stage 3: Results and Measures
As a result of what you have learned in Stage 2 what will you do to ensure that no group is unfairly and unlawfully impacted upon as a result of the proposed change(s)? (see guidance notes at the end of this form)

The Treasury Management operation is monitored regularly throughout the year and reported alongside performance information. This Treasury Management Policy Statement specifies formal reporting arrangements of the Borough Treasurer to Committee/Council, to include, a strategy report (this report) at the start of the financial year, a mid-year strategy review report and an annual review report at the financial year-end. The reports give a mechanism for reviewing the Council's policies and for assessing the effectiveness of the previous year's treasury management activities and the on-going performance of the treasury management function.

The CIPFA Treasury Management in Public Services Code of Practice, places emphasis on regular reporting on treasury management strategy and performance and scrutiny of treasury management strategy and policy to a specific named body. The Council has accordingly delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee. In line with the Code, the Cabinet and CRMG have received annual training and updates since the 2009/10 financial year.

In addition to the regular treasury management reporting cycle detailed above, a consultation report is taken to CRMG on formulation of the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy prior to writing the report. Subject to the boundaries established by Statute, Regulation and the Code of Practice, this report seeks the views of CRMG on

- The Council's approach to borrowing;
- The Council's approach to the investment of surplus funds and the management of risk (AIS);
- The Council's MRP Policy and the Council's approach to providing for the repayment of debt.

The treasury management reporting arrangements consider the frequency of reporting, the level of detail reported and also the level within the Council in which reporting takes place. The reporting arrangements detailed above are the minimum, with additional reporting undertaken as deemed necessary.

Treasury Management reports ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Regular and meaningful management information on day-to-day activities is also an essential characteristic of the Council's treasury management function. The form and frequency of management reports reflects the scope and nature of the Council's treasury management activities throughout the financial year.

Regular treasury management reporting would also identify any emerging impacts, should they arise.

The Council has created appropriate methods by which the performance of its treasury management activities can be measured which assists in judging whether it is gaining value for money from the resources devoted to these activities, particularly in meeting its wider business and service objectives. The Council aims to achieve an appropriate balance between risk containment and value for money and believes that the overriding need for effective risk management should be reflected in its Treasury Management Policy Statement and Treasury Management Practices, Treasury Management Strategy &

Annual Investment Strategy and various performance reports and reviews.

Performance measurement is a process designed to calculate the effectiveness of the Council's investment portfolio's returns and borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios (or managers), or with recognised industry standards or market indices.

The benefits and applications of performance measurement include:
- using past experience beneficially to future treasury management policies and practices
- by developing an appreciation of the factors influencing performance, improving the future processes of treasury decision-making
- allowing the Council to assess the potential for adding value through changes to the existing ways in which a portfolio is managed
- demonstrating an awareness of the need to review regularly the value attached to the treasury management function, and enhancing accountability
- enhancing the information available to the Council when seeking to review an existing manager's performance or when selecting a new manager
- permitting an informed judgement and decision about the merits or otherwise of using new treasury management instruments or techniques.

The Council has a number of approaches to evaluating treasury management decisions-
- quarterly reviews carried out by the treasury management team
- monthly review/position report to the Borough Treasurer
- reviews with treasury management consultants
- annual review as reported to Committee
- comparative reviews
- strategic, scrutiny and efficiency best value reviews

Periodic reviews during the financial year
The Borough Treasurer holds a monthly treasury management review meeting with the Treasury Management Group throughout the financial year, to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

Reviews with external treasury management consultants
The treasury management team holds reviews with external treasury management consultants at least every six months to review the performance of the investment and debt portfolios.

Annual Review after the end of the financial year
Following on from Quarterly Performance Reports & Mid-Year Report; an Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt/investment portfolios.
This report contains the following: -
- total debt and investments at the beginning and close of the financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanations for variance between original strategies and actual
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential & Treasury Indicators

Scrutiny of Treasury Management Strategy & Policy
Consultation and Review is sort during the year through the Corporate, Resource Management and Governance Scrutiny Committee on treasury management reports, the Treasury Management Policy Statement and Treasury Management Practices. Treasury management performance and policy setting is subject to prior scrutiny.

Comparative reviews
When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential & Treasury Indicators are locally set). Data used will be sourced from: -

- Greater Manchester Treasury Management Group

Stage 4: Decision Stage
Once your plan/policy is fully developed it will need to go through the correct scrutiny and approval channels: the EIA should be included as part of this (see guidance notes at the end of this form).

This pro forma will accompany the 2019/20 Treasury Management Strategy, Annual Investment Strategy and Revised Minimum Revenue Provision (MRP) Policy report at the Cabinet Meeting on 5 February 2019 and the Council Meeting on 21 February 2019.