Report Title:	**Treasury Management**
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Councillor Saunders Lead Member for Finance
Meeting and Date:	Cabinet - 7 February 2019
Responsible Officer(s):	Rob Stubbs, Deputy Director and Head of Finance
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) has updated its Treasury Management Code of Practice. The code requires the Council to demonstrate "Management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks".

2. The Treasury Management Strategy 2019/20 has been written in line with the details of the CIPFA code of practice and complies with it in all material ways.

3. This report also provides Cabinet with a summary of treasury activity in 2017/18.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Cabinet:

i) Approves and adopts the Council's Treasury Management Strategy.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 In line with the CIPFA Code of Practice the Treasury Management Strategy has been submitted to Cabinet for approval and adoption in 2019/20. The associated Prudential Performance Indicators will be monitored during the year. **This is the recommended option.**

3. KEY IMPLICATIONS

Table 1: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
Ratio of financing cost to net revenue stream	>6.0%	5.8%-6.0%	5.6% - 5.79%	<5.6%	May 2020

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
No. of days that counterpart limits are exceeded	>0	<=0	N/A	N/A	May 2020
No of days that the operational boundary for long term debt is exceeded	>0	<=0	N/A	N/A	May 2020

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Borrowing is only undertaken when necessary and not on the date of approval of a scheme by the Council or Cabinet, but as the funding is required. Borrowing is generally taken over the economic useful life of the asset, for instance borrowing for buildings would be applied over 50 years. The council will use available balances and capital receipts before undertaking borrowing to reduce any unnecessary revenue costs.

2017/18 Annual report

4.2 This section of the report reviews the period from the 1st April 2017 to the 31st March 2018.

4.3 The Council receives payments in the form of government grants, council tax and business rates. These funds are invested in either fixed rate loans, cash deposits or money market funds with Council approved counterparties. The list of approved counterparties is known as the “Lending List”. Achieving for Children were added to the Lending List following approval at Cabinet on the 28 September 2017.

4.4 The investment return benchmark is 0.25% above Bank of England base rate. The Monetary Policy Committee of the Bank of England increased the Bank of England base rate from 0.25% to 0.50% on the 2nd November 2017. There was a further increase in base rate to 0.75% on the 2nd August 2018 but this does not impact on the benchmark calculation for 2017/18.

4.5 The benchmark for 2017/18 has been calculated as an average rate as the base rate reduction occurred part way through the year.

4.6 The investment return for 2017/18 was 0.61% compared to the benchmark of 0.60%.

4.7 The return on the prepayment of Pension Fund contributions for 2017/18 was £221,107. This amount is not included in the investment return reported above but it contributes towards budget targets, which were achieved in 2017/18.

4.8 The Council has not increased its level of long term external debt during the period. As at 31st March 2018 the Authority's total long term external borrowing was £57,049,000 with an average interest rate of 4.97% for the Public Works Loan Board (PWLB) loans and 4.19% for the Lender Option Borrower Option (LOBO) loans borrowed from Barclays and Dexia. Barclays have declared that they will not be exercising their option to increase the rate during the lifetime of the loan and this effectively makes it a fixed rate loan.

4.9 At the end of the financial year 2017/18 the Council borrowed £20,000,000 in the short term. The loans were repaid in full by the 1st May 2018.

5. LEGAL IMPLICATIONS

5.1 In producing and reviewing this report the Council is meeting its legal obligations to produce a strategy for treasury management.

6. RISK MANAGEMENT

Table 2: Impact of risk and mitigation

Risks	**Uncontrolled risk**	**Controls**	**Controlled risk**
That the Council will have insufficient cash to meet its objectives.	HIGH	Daily management of treasury activities ensures that cash is invested to maximise returns at the same time as maintaining funds for service and capital expenditure.	LOW

7. POTENTIAL IMPACTS

7.1 None.

8. CONSULTATION

8.1 Overview & Scrutiny will review the report prior to Cabinet. Comments will be reported to Cabinet

9. TIMETABLE FOR IMPLEMENTATION

9.1 The strategy will be used from 1 April 2019 in line with the commencement of the 2019/20 budget.

10. APPENDICES

10.1 This report is supported by 8 appendices:

- Appendix A Treasury strategy principles
- Appendix B Treasury management strategy

- Appendix C Treasury management objectives
- Appendix D Glossary of terms
- Appendix E Loan resources
- Appendix F debt repayment profile
- Appendix G Investment criteria
- Appendix H Prudential Indicators

11. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Saunders	Lead Member for Finance		
Russell O'Keefe	Acting Managing Director		
Rob Stubbs	Section 151 Officer		
Elaine Browne	Interim Head of Law and Governance		
Nikki Craig	Head of HR and Corporate Projects		
Louisa Dean	Communications		
Andy Jeffs	Executive Director		
Kevin McDaniel	Director of Children's Services		
Angela Morris	Director of Adult Social Services		
Hilary Hall	Deputy Director of Commissioning and Strategy		

REPORT HISTORY

Decision type: Non-key decision	**Urgency item?** No	**To Follow item?**
Report Author: Rob Stubbs, Deputy Director and Head of Finance, 01628 796222		

TREASURY MANAGEMENT STRATEGY GENERAL PRINCIPLES

In the preparation of this treasury management strategy a number of key areas are considered to be fundamental to our treasury management activity. They are listed below and covered in more detail in the body of this strategy.

- Risk Management
- Performance Measurement
- Decision-making and analysis
- Approved instruments, methods and techniques
- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- Reporting requirements and management information arrangements
- Budgeting, accounting and audit arrangements
- Cash and cash flow management
- Money laundering
- Training and qualifications
- Use of external service providers
- Corporate governance

SECTION 1 RISK MANAGEMENT

General statement

The Head of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report annually to Cabinet on their adequacy and suitability. Any actual or likely difficulty in achieving the organisation's objectives will be reported to Cabinet in accordance with the procedures set out in *Reporting requirements and management information arrangements*.

Credit and counter party risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter party lists and limits reflect a prudent attitude towards organisations with whom it trades. It also recognises the need to have and maintain, a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Liquidity risk management

The Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the level of funds available necessary for the achievement of its business / service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities

Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, in line with the amounts provided in its budget.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. At the same time retaining a degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

Any decision will be subject to the consideration of this strategy and, if required, approval of Cabinet or Council.

Exchange rate risk management

The Council will manage any exposure to fluctuations in exchange rates, in order to minimise any detrimental impact on its budgeted income/ expenditure levels.

Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies raised will be managed with a view to obtaining terms for refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

SECTION 2 PERFORMANCE MEASUREMENT

The Council is committed to the pursuit of value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in Appendix B.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

SECTION 3 DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

SECTION 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the appendices to this document, and within the limits and parameters defined in *Section 1 Risk Management*.

SECTION 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure that the reasons are properly reported in accordance with *Section 6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Head of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Head of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The Head of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Head of Finance in respect of treasury management are set out in the schedule to this document. The Head of Finance will fulfil all such responsibilities in accordance with the policy statement.

SECTION 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

Cabinet will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement.

SECTION 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *Sections 1 Risk management, 2 Performance measurement, and 4 Approved instruments, methods and techniques.* The Head of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with *Section 6 Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

SECTION 8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Head of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Head of Finance will ensure that these are adequate for the purposes of monitoring compliance with *Section 1 liquidity risk management*.

SECTION 9 MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

SECTION 10 TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance will recommend and implement the necessary arrangements.

The Head of Finance will ensure that members of the Audit and Performance review and Corporate Overview and Scrutiny panels have access to training relevant to their needs and responsibilities

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively

SECTION 11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that the responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure that it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

SECTION 12 CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT STRATEGY 2019/20

1. Introduction

1.1 The Council's Treasury Management Strategy for 2019/20 considers the impact of anticipated capital and revenue cash flows, the maintenance of existing loan debt, the availability and use of internal sources of finance such as reserves, capital funds and capital receipts unapplied. Where surplus cash is available the strategy considers the extent to which these should be invested. The strategy considers the need for the Council to consider alternative financing options such as borrowing and reviews the potential trends in interest rates. Integral to the strategy is the setting of the various Indicators required by the Prudential Code that Cabinet will monitor.

1.2 The Council has cash balances which are used to fund day to day service operations and support capital funding through the use of internal resources. Any surplus funds are invested within constraints set out by the Secretary of State. The Council also has debt which has built up over time to fund its fixed assets. The Head of Finance manages both the day to day cash requirements (including the investment of surplus funds) and the borrowing requirements of the Council through an in-house treasury management team. Cash investment earnings are included in the Council's revenue budget which also reflects the financial implications of the proposed capital programme.

1.3 The Council's investment and borrowing policies are governed by the Local Government Act 2003 and the Secretary of State's Investment Code. These contain regulations backed up by various Codes of Practice. The CIPFA Treasury Management Code of Practice, which the Council has formally adopted and the Secretary of State's Investment Code, both require the Head of Finance, before the beginning of each financial year, to present an Annual Treasury Management Strategy for the forthcoming year for approval by the full Council. The Council also implemented the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 requiring Council to approve an Annual Statement of Minimum Revenue Provision which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund only.

1.4 The CIPFA Prudential Code for Capital Finance in Local Authorities sets out indicators that are used to support capital expenditure plans and treasury management decisions. The Prudential Indicators are set by the Council at budget time and are to be monitored during the year.

1.5 Section 3 of the Local Government Act 2003 requires the Council to approve an "affordable borrowing limit". This is the maximum level of loan debt that may be outstanding at any point in time. This is set having regard for the overall treasury management strategy.

1.6 Finally, it is a statutory requirement under S33 of the Local Government and Finance Act 1992 for the Council to produce a balanced budget, and in particular this includes the impact of revenue costs flowing from capital expenditure financing decisions. The Head of Finance confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.

2. Interest Rate Assumptions

2.1 The assumptions on interest rates and their projected movement during the three year planning period represent a key element of the treasury management strategy. These assumptions are based on information gained from a wide range of sources in the investment market compared to Bank of England projections over the period. These are summarised in the following table derived from the Bank of England Inflation report August 2018.

Table 1: Bank Rate Forecasts

	Bank Rate 2019	Bank Rate 2020	Bank Rate 2021
Q1 Forecast	0.7%	1.0%	1.1%
Q2 Forecast	0.8%	1.0%	1.1%
Q3 Forecast	0.9%	1.0%	1.1%
Q4 Forecast	0.9%	1.1%	1.1%
Average	0.8%	1.0%	1.1%
Sector Forecast	1.0%	1.4%	1.7%

(Source: Bank of England Inflation report 08/18)

2.2 Historic bank rates are detailed in table 2 below. The Monetary Policy Committee of the Bank of England increased the bank rate to 0.75% in August 2018. The rate is expected to continue to rise in the medium term.

Table 2: Comparison of Bank Rate over Time

Date	Previous Rate (%)	New Rate (%)	Change (%)
March 2009	1.0	0.50	-0.5
Aug 2016	0.50	0.25	-0.25
Nov 2017	0.25	0.50	+0.25
Aug 2018	0.50	0.75	+0.25

2.3 2019/20, the Head of Finance, based on the advice he has received, expects the Bank of England Rate to start the year at 0.75% and increase to around 1.0% during the course of 2019/20. Rates are expected to continue to 1.1% or higher by the end of 2021/22. This trend is likely to impact PWLB rates as well. Table 3 below shows expected averages for 2019/20.

2.4 Table 3: Interest Rate Forecast 2019/20

	Average assumed for the year 2019/20
Bank of England Bank Rate	0.8%
PWLB 5 years	1.55%
PWLB 10 years	1.85%
PWLB 15 years	2.26%
PWLB 25 years	2.73%
PWLB 50 years	2.59%

2.4 In the current economic environment interest rate projections over the short term are volatile, so the above forecasts cannot be relied upon to hold true for the whole of the coming year. The Head of Finance will monitor interest rate projections carefully and adjust financing and investment strategies accordingly.

3. Capital Financing Strategy

3.1 The current ("Prudential") System of capital controls, allows the Council to determine its own level of capital investment. However, the Council must demonstrate that its capital programme is affordable, prudent and sustainable. In the short term the proposed capital programme will be financed from external borrowing. Any delays in receiving cash from anticipated receipts will be covered through the temporary use of unsupported short term borrowing.

3.2 Although the capital programme is planned with reference to the total level of resources available to finance capital expenditure, the method of financing individual capital schemes will be determined by the Head of Finance at the end of the financial year. The order of use of sources of finance for the capital programme is:

1. Capital Grants
2. Capital Contributions from outside bodies e.g. Section 106 / CIL
3. Capital Receipts
4. Direct Revenue Contributions – mainly for short life assets
5. Draw down from accumulated investments (set aside to repay debt)
6. Prudential Borrowing (unsupported) to finance 'invest to save' schemes and pending the arrival of future known capital receipts

In addition,

7. Leasing will also be considered if more cost effective.

3.3 Capital Grants and external contributions are likely to have been received for specific schemes and therefore cannot be used for any other purpose. For other schemes, capital receipts are to be used in preference to revenue contributions or borrowing.

3.4 Capital Receipts will be fully applied in the year in which they are received if possible to reduce the level of Minimum Revenue Provision (MRP) i.e. the monies that the Council sets aside for debt repayment.

Minimum Revenue Provision (MRP) Policy Statement

3.5 The Head of Finance is required to produce a Minimum Revenue Provision Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the Statement is to ensure the provision is prudent, allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure benefits.

3.6 The Head of Finance recommends continuing the policy adopted by the Council i.e.

This Council's Minimum Revenue Provision policy is to calculate its Minimum Revenue Provision for 2019/20 at a percentage of the adjusted capital financing requirement which is based on the estimated life of the asset(s) concerned.
Where the Council approves an "invest to save" scheme, it will fund the cost from prudential borrowing and make a charge to the appropriate revenue account equivalent to a depreciation charge, in accordance with standard depreciation accounting procedures.

Borrowing Strategy

3.7 The Council has prepared and published a three-year capital expenditure plan to 2021/22 and will undertake short term borrowing to ensure the affordability and delivery of the capital programme.

3.8 There are no maturing loans requiring replacement over the next three years. Low interest rates offer the opportunity to restructure the Council's more expensive debt. However, a large element of the Council's debt was taken out for 50 years and penalties arising from early repayment are, at present, prohibitive. The Head of Finance will however, keep the situation under regular review and report any changes in circumstance that change this situation. The various loan resources available to local authorities are detailed in Appendix E.

3.9 In the current economic climate of low interest rates, entering into new external debt would have the effect of reducing the average rate of interest on the debt portfolio and may offer good value for money in terms of lower debt servicing costs. However, this Council will not enter into further long term borrowing without a business case to support that option.

3.10 The Council inherited much of its borrowing maturity following the transfer of ex-Berkshire debt from Reading. The Head of Finance will ensure that future borrowings to limit the proportion of borrowing maturing in any one financial year and in doing so safeguarding against the possibility of borrowing at a time of unfavourable interest rates. The maturity analysis of all borrowing and loans held by the Council is shown in Appendix F.

3.11 The debt portfolio also consists of two Lenders Option Borrowers Options (LOBOs) totalling £13 million. The first option is not due for several years. The lenders for the LOBOs are Barclays and Dexia. Barclays have withdrawn their option to change the rate, so the Barclays loan is now effectively a fixed rate/fixed term loan. Dexia have retained their option which can be taken every 5 years on the 25 Jan, with the next option date being 25 Jan 2023. However, if the current low bank rates continue it is unlikely that Dexia would exercise their options for repayment and the reasonable assumption is that LOBOs will run to full term.

3.12 With regard to PWLB debt, the Head of Finance will ensure the prudent planning of any new loans taken out. The Head of Finance will continue to review the potential to restructure the older and more costly debt and, where it is economic to do so, will recommend implementing debt restructuring strategies where feasible to reduce refinancing risk and increase value for money.

3.13 The authorised limit for external borrowing is the highest level of borrowing expected during the year to cover any exceptional adverse cash flow movements when payments run ahead of receipts and/ or any changes in borrowing which could arise to cover capital schemes funded through prudential borrowing. Once agreed it is a ceiling which should not be exceeded without further Council approval. The authorised limit is shown in Appendix H.

3.14 The operational boundary is the maximum borrowing that should be required if there are no exceptional cash flow movements. This is to ensure that in normal circumstances borrowing is only used to finance capital expenditure. The operational boundary is shown in Appendix H.

Investment Strategy

3.15 S12 of the Local Government Act 2003 gives a local authority power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". S15(1) of the 2003 Act requires an authority to "have regard to such guidance as the Secretary of State may issue", and the Secretary of State issued an Investments Code in 2004. The Head of Finance confirms that the strategy set out below complies with these requirements.

3.16 Since the collapse of the Icelandic banks and the problems experienced by the banking sector the Head of Finance has kept the counter party lending list under constant review having good regard to the balance between risk and return. The Head of Finance has consulted key Cabinet members in establishing a revised counter party listing which reflects the level of exposure to investment risk the Council is prepared to support and establish a list of banks, building societies and banking institutions which minimise the Council's risk and the limit of exposure using the Fitch credit rating methodology. The investment limit of each counter party and the current exposure is shown in Appendix G.

Managing Treasury Management Performance

3.17 The Treasury Management function is provided by a small in-house team and Regular meetings take place with the Chief Accountant and Head of Finance at which the current situation for investments and borrowing are reviewed.

Prudential Indicators

3.18 The objectives of the CIPFA Prudential Code for Capital Finance in Local Authorities are to ensure that local authorities' capital investment plans are affordable, prudent and sustainable. In addition, treasury management decisions must reflect good professional practice and support prudence, affordability and sustainability. The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal. To demonstrate that the objectives are being fulfilled, and to support and record local decision-making Councils are required to set specific Prudential Indicators. These are not designed to be inter-authority comparative performance indicators and each authority sets its own limits or ratios.

3.19 The proposed indicators over the three year planning period are detailed in Appendix H.

Statutory Determinations

3.20 The Council must "determine and keep under review" how much money it can afford to borrow – the Affordable Borrowing Limit. This is the maximum amount of loan debt that may be outstanding at any point in time, and includes both borrowing for capital purposes and an allowance for temporary revenue borrowing.

3.21 It is proposed that the Affordable Borrowing Limit should be set at the maximum estimated borrowing level for each year. These limits are included as Prudential Indicators D and E in Appendix H.

Monitoring and Reporting

3.22 The treasury management activities during the year will be included in Finance Update reports to the Cabinet and Corporate Overview and Scrutiny panel.

Financial Implications

3.23 It is a statutory requirement under S33 of the Local Government and Finance Act 1992 for the Council to produce a balanced budget and, in particular, this includes the impact of revenue costs flowing from capital expenditure financing decisions. The Head of Finance confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.

3.24 The strategy for treasury management is to maximise, in a prudent fashion, investment income and to minimise interest payments on debt.

TREASURY MANAGEMENT OBJECTIVES FOR 2019/20

1. Borrowing

- To minimise the revenue costs of borrowing.
- To manage the Council's debt maturity profile to ensure a spread of maturities over future years.
- To consider all borrowing instruments when considering funding ‘invest to save’ projects as they arise
- Borrow from the lowest interest rate when new loans are required which should be less than the equivalent PWLB average rate for the year.
- To repay/reschedule debt at the optimum time to yield the lowest premium (or highest discount) and maximum overall savings.

2. Investment

- To maintain capital security.
- To maximise return on investments whilst minimising the risk on the capital sum.

3. Capital Financing

- To maximise the use of capital grants and consider leasing when appropriate.
- To use unsupported borrowing to finance revenue-saving schemes – in particular invest to save schemes and also for temporary financing pending the arrival of known future capital receipts.
- To appraise various sources of financing, including leasing and private sector finance and any new financial instruments, and apply to finance new capital expenditure, as they are identified, if financially advantageous.
- In 2019/20 to make an annual Minimum Revenue Provision (MRP) for the repayment of debt. This will depend on the estimated life of the asset being purchased / created, e.g. a property with an estimated life of 25 years will use 4% of the capital financing requirement in the MRP calculation.

GLOSSARY OF TERMS USED

IN THE TREASURY MANAGEMENT STRATEGY REPORT

Affordable Borrowing Limit and Authorised limit for external debt	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unusual events. It reflects a level of borrowing which, while not desired, could be afforded but may not be sustainable in the longer term.
Capital Financing requirement	The authority's underlying need to borrow
Capital receipts - reserved and usable parts	Monies received by a local authority when it sells an asset. The balance may be used to finance new capital expenditure, to meet any liability for a credit arrangement, or to repay the principal of loan debt.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the Council has formally adopted.
Credit arrangements	Forms of credit which do not involve borrowing of money, e.g. leases of land and buildings.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on each interest payment date. If the Lender decides to exercise the option to increase the rate the borrower can then decide whether to accept the new terms or repay the loan.
Money Market fund	A cash management vehicle for short-term liquidity presented in the form of a fund. The fund actively invests its assets in a diversified portfolio of high-grade short-term, money-market instruments following the underlying principles of security, liquidity, and yield. The overriding guiding principle is the preservation of capital.
Minimum revenue provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loan debt.

Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of fixed rate long-term borrowing for a local authority, and the Board will also act as a lender of last resort.
Short Term	Short term plans and forecasts describe treasury management activities of a day to day nature, up to 6 months of any calendar year. These strategies are concerned with the management of working capital and liquidity.
Medium Term	Medium term treasury management plans cover periods up to the end of next financial year whilst the Medium Term Financial Plan covers the current year plus three years.
Long Term	Long term plans and forecasts describe treasury management and business planning strategies that look at periods in excess of the next three financial years.

LOAN RESOURCES AVAILABLE TO LOCAL AUTHORITIES

Long-term Borrowing

Public Works Loan Board (PWLB)
PWLB loans are available for periods ranging from one to 50 years at fixed or variable rates of interest. It is possible to make premature repayments (subject to payment of a premium or discount), or convert from fixed to variable terms and vice versa. Local authorities can borrow amounts from the Board up to their authorised lending limit as agreed by Members.

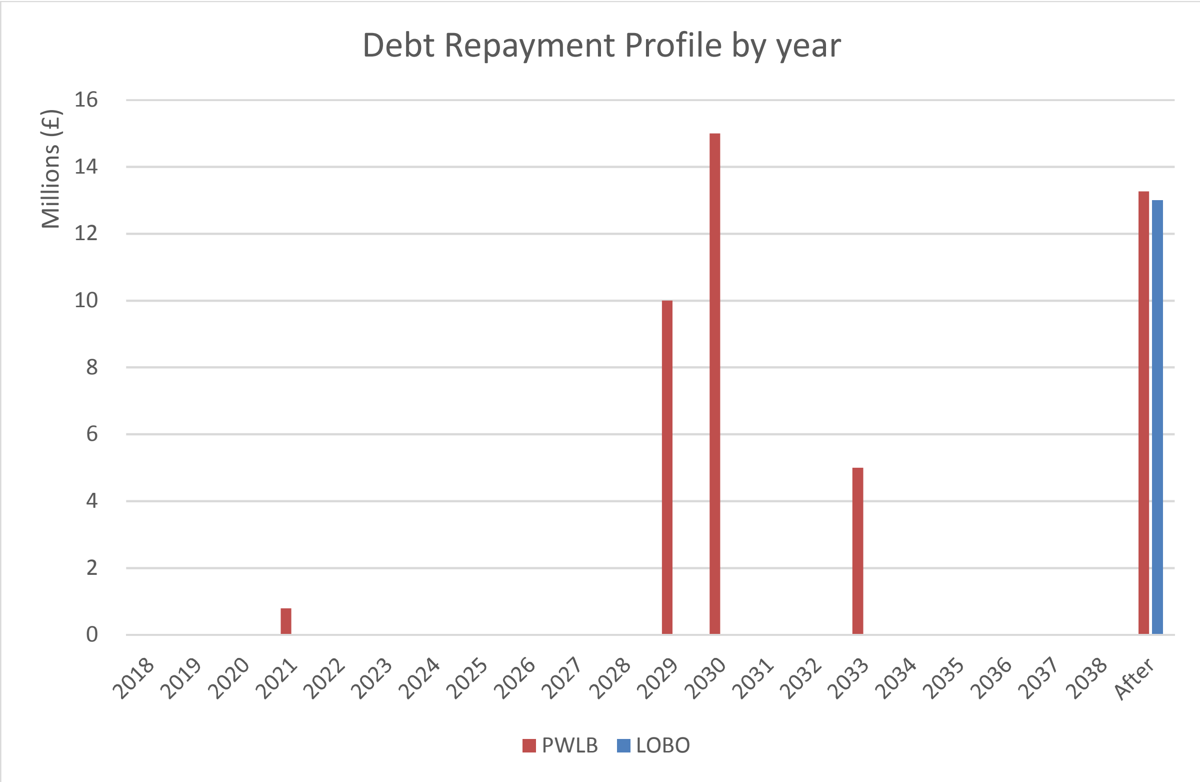
Short-term borrowing

The Council will generally have sufficient cash investments to cover short-term day to day bank balance shortfalls. However, if these are insufficient any short term cash shortfall will be met from the lower cost of using the Council overdraft facility with Lloyds TSB (the Council's banker) or by raising a loan from a local authority. All local authority loans will be arranged through the money brokers with whom the Council is in daily contact.

Debt – Rescheduling and Premature Repayments

The Council actively reviews its debt portfolio and where possible will refinance at more beneficial rates as long as the one off redemption costs are not unaffordable.

DEBT REPAYMENT GRAPH



INVESTMENT CRITERIA

Counterparty	**FITCH Short Term Rating**	**FITCH Long Term Rating**	**FITCH Outlook**	**Max Sum To Be Lent £m**
UK Government				
Debt Management Office	F1+	AA	Negative	No Limit
Banks				
Abbey	F1	A	Stable	15
Australia and New Zealand Bank	F1+	AA-	Stable	5
Barclays	F1	A	Positive (watch)	15
Clydesdale	F2	BBB+	Stable	15
HSBC	F1+	AA-	Stable	15
Lloyds	F1	A+	Stable	15
National Australia Bank	F1+	AA-	Stable	5
Royal Bank of Canada	F1+	AA	Stable	5
Royal Bank of Scotland	F2	BBB+	Positive	15
Santander UK	F1	A	Positive (watch)	15
Standard Chartered	F1	A	Stable	15
Ulster Bank	F2	A-	Positive	5

Counterparty	FITCH Short Term Rating	FITCH Long Term Rating	FITCH Outlook	Max Sum To Be Lent £m
Building Societies with total group assets greater than £6 billion and FITCH Long term rating of BBB or better. (Max £3m per loan)				
Coventry	F1	A	Stable	5
Nationwide	F1	A	Stable	5
Yorkshire	F1	A-	Stable	5
Leeds	F1	A-	Stable	5
Principality	F2	BBB+	Stable	5
Skipton	F1	A-	Stable	5
All UK **Local Authorities**, with the exception of those with reported financial irregularities.				10
All **Money Market funds** with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		10
Invesco Sterling Liquidity Fund		AAA		10
Aberdeen Sterling Liquidity Fund		AAA		10
Insight GBP Liquidity Fund		AAA		10
LGIM Sterling Liquidity Fund		AAA		10

Counterparty	**FITCH Short Term Rating**	**FITCH Long Term Rating**	**FITCH Outlook**	**Max Sum To Be Lent £m**
Revolving Credit Facility				
Achieving for Children				11.7
Financil Services Companies				
Kames Capital				1
Legal and General				1.5
RBWM Associated Companies				
Flexible Home Improvement Loans Ltd				0.5
RBWM Property Co. Ltd				1.5

FITCH Ratings Terminology

Short Term Rating - Expectation of timely repayment. F1+ is most likely to repay on time; F1 Highest credit; F2 Good; F3 Fair; B Speculative; C High default risk.

Long Term Rating- Expectation of credit risk. AAA is least likely, i.e. little credit risk; AA Very high credit; A High credit; BBB Good; Below BBB indicates non investment grade.

PROPOSED PRUDENTIAL INDICATORS

The objectives of the CIPFA Prudential Code for Capital Finance in Local Authorities are to ensure that local authorities' capital investment plans are affordable, prudent and sustainable. In addition, treasury management decisions must reflect good professional practice and support prudence, affordability and sustainability. The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal. To demonstrate that the objectives are being fulfilled, and to support and record local decision-making Councils are required to set specific Prudential Indicators. These are not designed to be inter-authority comparative performance indicators and each authority sets its own limits or ratios. It should be noted that where indicators for three years are required, these are rolling scenarios, not fixed for three years. Any indicator can be reviewed at any time, following due process, and must be reviewed when the prudential indicators are set in subsequent years.

A. Capital expenditure

The actual capital expenditure that was incurred in 2017/18 and the estimates of capital expenditure to be incurred for the current year and future years are:

	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
General Fund	£40.6m	£64.9m	£54.9m	£33.2m

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B. Ratio of financing costs to revenue stream

The actual ratio of financing costs for 2017/18 and estimates of financing cost to net revenue stream for the current and future years are:

	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
Non-loan financed	20.9%	22.6%	0.0%	0.0%
Loan financed	6.5%	5.8%	7.0%	8.5%

C. Capital Financing Requirement

Estimates of the end of year capital financing requirement for current and future years and the actual capital financing requirement as at 31 March 2018.

	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
General Fund	£106.3m	£149.3m	£200.4m	£225.7m

D. Authorised limit for external debt

This is the limit above which external debt must not go without Council approval. The limit reflects the maximum level of borrowing which, whilst not desirable, could be afforded but may not be sustainable. It allows for variations in cash flow and the potential use of borrowing to finance schemes funded through prudential borrowing.

Borrowing	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
	£189m	£173m	£181m	£260m

E. Operational boundary for external debt

This is the limit against which external debt will be constantly monitored. It includes both borrowing and long-term liabilities (leases) and encompasses all borrowing whether revenue or capital.

Borrowing	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
	£169m	£152m	£159m	£214m

F. Upper limit on fixed interest rate exposures and variable rate exposures

(Note: These are the highest anticipated levels of borrowing and investments, and allow for flexibility between fixed and variable rate exposures). Past borrowing and investment decisions and the current economic climate result in no variable rate investments and borrowing.

	2017/18 actual	2018/19 probable	2019/20 estimate	2020/21 estimate
Fixed interest rate exposures	70%-90%	70%-90%	70%-90%	70%-90%
Variable interest rate exposures	10%-30%	10%-30%	10%-30%	10%-30%