Annex D

Report Title:	**Treasury Management Strategy & Prudential Indicator Report 2020/21**
Contains Confidential or Exempt Information?	No - Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Economic Development
Meeting and Date:	Full Council - 25 February 2020
Responsible Officer(s):	Duncan Sharkey, Managing Director & Terry Neaves, Interim Section 151 Officer
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 and the CIPFA Prudential Code, the council is required to approve a Treasury Management Strategy before the start of each financial year. This report fulfils that obligation.

2. The Treasury Management Strategy 2020/21 as set out in section 4 of this report has been written to comply with the CIPFA Code of Practice. It sets out the parameters for the council's planned treasury activity.

3. The council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, the Prudential Indicators that need to be approved by full Council, are set out in Appendix B.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Full Council approves:

- **i) The Council's Treasury Management Strategy for 2020/21 as set out in section 4 of this report.**
- **ii) The Council's Prudential Indicators set out in Appendix B.**
- **iii) The Council's associated counterparty list as set out in Appendix C**

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

2.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of the financial year.

3. KEY IMPLICATIONS

Table 2: Key Implications

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

Treasury Management Strategy 2020/21

Introduction

4.1 The council's Treasury Management Strategy for 2020/21 considers

(i) impact of anticipated capital and revenue cash flows,

(ii) maintenance of existing loan debt,

(iii) availability and use of internal sources of finance such as reserves, capital funds and capital receipts unapplied.

(iv) Where surplus cash is available the strategy considers the extent to which these should be invested.

(v) 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.

4.2 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 S151 Officer 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.

4.3 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 S151 Officer, 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.

4.4 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. 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. The proposed Prudential Indicators and borrowing limits to be approved by the Council are set out in Appendix B. These have been set having regard for the overall treasury management strategy and will be monitored during the year.

4.5 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 Interim S151 Officer confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.

Capital Financing Strategy

4.6 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.

4.7 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 s151 Officer 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
7. Leasing will also be considered if more cost effective.

4.8 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.

4.9 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. As noted in the Budget Strategy the council will earmark capital receipts that it can use to fund the revenue costs of its transformation strategy and savings delivery plan.

4.10 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority’s main objective when borrowing is to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short-term savings with the flexibility to secure longer dated loans as and when financial forecasts indicate that external borrowing rates may increase.

Minimum Revenue Provision (MRP) Policy

4.11 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (‘the 2003 Regulations’) requires local authorities to ‘charge to a revenue account a minimum revenue provision (MRP) for that year’. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

4.12 Setting aside MRP is sometimes referred to as setting aside monies for borrowing, implying that this is setting aside money for repaying external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the council’s own cash resources and no external borrowing or new credit arrangement has been entered into.

4.13 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the council considers to be prudent. This statement is designed to meet that requirement.

4.14 In setting a prudent level of MRP local authorities are required to “have regard” to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

4.15 In setting a level which the council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the council.

4.16 The Guidance sets out four “possible” options for calculating MRP, as set out below:

Option	**Calculation method**	**Applies to**
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

4.17 Two main variants of Option 3 are set out in the Guidance: (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset’s expected useful life and is increasingly becoming the most common MRP method for local authorities.

4.18 The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include: capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.

4.19 Other approaches are not ruled out however they must meet the statutory duty to make prudent provision each financial year.

4.20 Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance and to even out the financing costs of assets over their anticipated life, on 3rd December 2019 Full Council approved the following MRP Statement to take effect from 1 April 2019:

- for all capital expenditure, MRP will be based on expected useful asset lives (Option 3 – asset life), calculated using the annuity method;
- asset lives will be arrived at after discussion with valuers', but on a basis consistent with depreciation policies set out in the Council's annual Statement of Accounts, and will be kept under regular review;

4.21 The annuity method is a similar approach to a repayment mortgage where the principal repayments increase through the life of the asset in comparison to a straight-line method which repays the same amount of principal each year. This will result in the Council paying less for its capital financing costs over the medium-term than it otherwise would have under the old methodology, although principal repayments will increase as interest rate payments reduce over the life of the asset. An approach now being taken by most large authorities as more accurately reflecting the value of the asset.

4.22 MRP for finance leases and service concession contracts shall be charged over the primary period of the lease, in line with the Guidance,

4.23 For expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003 or Regulation 25(1) of the 2003 regulations, the 'asset' life should equate to the value specified in the statutory Guidance.

In applying 'Option 3':

- MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational;
- the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years except as otherwise permitted by the guidance (and supported by valuer's advice);
- if no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years;

Interest Rate Assumptions

4.24 The Bank of England maintained the Bank Rate at 0.75% in December. The recent worse than expected performance of the UK economy and low levels of inflation have increased the possibility of a reduction in interest rates by the Bank of England. The current expectation is that interest rates will remain at low levels for longer than previously expected.

Borrowing

4.25 The table below shows the council's current borrowing projection to the end of 2024/25, with increasing borrowing required to fund the Capital Programme:

Borrowing Type	Actual 31/03/2019	Projected 31/03/2020	Projected 31/03/2021	Projected 31/03/2022	Projected 31/03/2023	Projected 31/03/2024	Projected 31/03/2025
	£000	£000	£000	£000	£000	£000	£000
Long term	57,049	57,049	57,049	56,264	56,264	56,264	56264
Short term	92,336	147,100	155,400	159,900	165,000	174,000	151,000
Investments	(11,603)	(13,018)	(13,444)	(13,444)	(13,444)	(13,444)	(13,444)
Loans to partners*	(8,781)	(8,556)	(8,556)	(8,556)	(8,556)	(8,556)	(8,556)
Net Borrowing	**129,001**	**182,575**	**189,153**	**192,382**	**199,321**	**208,319**	**185,088**

*Cashflow loans to AfC and the Property Company

Borrowing Strategy

4.26 The council has prepared and published a three-year capital expenditure plan to 2022/23 and will undertake short-term borrowing to ensure the affordability and delivery of the capital programme.

4.27 With the council's borrowing levels due to increase over the next four years, the council's strategy is to increase the level of long-term borrowing to gain greater certainty of borrowing costs and to protect against future rises and volatility in interest rates. With interest rates now expected to remain at low levels for longer the council will continue to carefully monitor future interest rate projections to decide the best time to take out new long-term borrowing.

4.28 The council inherited much of its borrowing maturity following the transfer of ex-Berkshire debt from Reading Borough Council. The S151 Officer 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.

4.29 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 January, with the next option date being 25 January 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.

4.30 With regard to Public Works Loan Board (PWLB) debt, the S151 Officer will ensure the prudent planning of any new loans taken out. The S151 Officer 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.

4.31 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 B.

4.32 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 B.

Investment Strategy

4.33 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 S151 Officer confirms that the strategy set out below complies with these requirements.

4.34 Since the collapse of the Icelandic banks and the problems experienced by the banking sector the S151 Officer has kept the counter party lending list under constant review having good regard to the balance between risk and return. The S151 Officer 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 C.

Managing Treasury Management Performance

4.35 The Treasury Management function is provided by a small in-house team and regular meetings take place with the Chief Accountant and S151 Officer at which the current situation for investments and borrowing are reviewed.

Prudential Indicators

4.36 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.

4.37 The proposed indicators over the three year planning period are detailed in Appendix B.

Fixed/Variable Interest Rate Exposure

4.38 This indicator is set to control the council's exposure to interest rate risk.

Upper limit on proportion of borrowing that is fixed rate	100%
Upper limit on proportion of borrowing that is variable	80%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Statutory Determinations

4.39 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.

4.40 It is proposed that the Affordable Borrowing Limit should be set at the maximum estimated borrowing level for each year. These limits are included in the Prudential Indicators in Appendix B.

Monitoring and Reporting

4.41 The treasury management activities during the year will be included in Finance Update reports to the Cabinet.

Financial Implications

4.42 It is a statutory requirement under S33 of the Local Government and Finance Act 1992 for the Council to produce a balanced budget, and this includes the impact of revenue costs flowing from capital expenditure financing decisions in particular. The S151 Officer confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.

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

5. LEGAL IMPLICATIONS

5.1 This report assists the council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the council's policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

6. RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure.	LOW
That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll.	LOW

7. POTENTIAL IMPACTS

7.1 Equalities. None identified.

7.2 Climate change/sustainability. None identified

7.3 Data Protection/GDPR. None identified.

8. CONSULTATION

8.1 Not applicable

9. TIMETABLE FOR IMPLEMENTATION

9.1 The strategy will be used from 1 April 2020 in line with the commencement of the 2020/21 budget.

10. APPENDICES

10.1 This report is supported by three appendices:

- Appendix A Treasury Management Principles
- Appendix B Prudential Indicators
- Appendix C Counterparty Lending List

11. BACKGROUND DOCUMENTS

11.1 None

12. CONSULTATION (MANDATORY)

Name of consultee	**Post held**	**Date sent**	**Date returned**
Cllr Hilton	Lead Member for Finance	23/01/20	28/01/20
Cllr Johnson	Leader of the Council	23/01/20	
Duncan Sharkey	Managing Director	23/01/20	27/01/20
Russell O'Keefe	Director of Place	23/01/20	
Terry Neaves	Interim Section 151 Officer	23/01/20	23/01/20
Elaine Browne	Head of Law	23/01/20	23/01/20
Nikki Craig	Head of HR, Corporate Projects & ICT	23/01/20	
Louisa Dean	Communications	23/01/20	
Kevin McDaniel	Director of Children's Services	23/01/20	
Hilary Hall	Director of Adults, Commissioning & Health	23/01/20	25/01/20
Karen Shepherd	Head of Governance	23/01/20	23/01/20
	Other		

13. REPORT HISTORY

Decision type: Council decision	**Urgency item?** No	**To Follow item?** Not applicable
Report Author: Terry Neaves, Interim Section 151 Officer		

TREASURY MANAGEMENT POLICIES

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 S151 Officer 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 the Council's Treasury Management Strategy.

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 S151 Officer 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 S151 Officer 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 S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The S151 Officer 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 S151 Officer 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 S151 Officer 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 S151 Officer, 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 S151 Officer 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 S151 Officer will recommend and implement the necessary arrangements.

The S151 Officer 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 S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Prudential Indicators 2018/19 TO 2022/23

1. Introduction

The prudential indicators are prepared in accordance with the CIPFA Prudential Code for Capital Financing in Local Authorities

The actual figures for 2018/19 and the estimates for 4 further years are shown below.

The figures include this council's share of the old Berkshire County Council debt that is now managed by the Royal Borough.

2. Capital Financing Requirement

In order to ensure that over the medium term borrowing will only be for a capital purpose, the council must ensure that its debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence and is set out in the table below.

Capital Financing Requirement	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Total CFR	**106.0**	**138.1**	**199.6**	**206.6**	**210.4**
Net Capital Programme	34.5	63.2	8.9	5.7	6.9
less MRP	(2.4)	(1.7)	(1.8)	(2.0)	(1.9)
Closing CFR	**138.1**	**199.6**	**206.6**	**210.4**	**215.5**
less Internal Borrowing	(9.1)	(17.0)	(15.7)	(15.7)	(15.7)
Net Borrowing Requirement	**129.0**	**182.6**	**190.9**	**194.7**	**199.8**
Less: long-term borrowing	(57.1)	(57.1)	(57.1)	(56.4)	(56.4)
plus Investments	11.6	13.0	13.0	13.0	13.0
Loans to partners	8.8	8.6	8.6	8.6	8.6
Estimated further borrowing	**92.3**	**147.1**	**155.4**	**159.9**	**165.0**

3. Summary of Council's Expenditure Plans

The table below is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure and Financing	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Capital Programme	52.0	69.8	37.2	32.5	30.3
Total Expenditure	**52.0**	**69.8**	**37.2**	**32.5**	**30.3**
Grants & Contributions	11.9	0.2	0.0	0.0	0.0
S106 & CIL	2.7	3.2	3.2	3.2	3.2
Capital Receipts	2.9	3.3	25.1	23.6	20.2
Borrowing	34.5	63.2	8.9	5.7	6.9
Total Financing	**52.0**	**69.8**	**37.2**	**32.5**	**30.3**

4. Operational Boundary

The Operational Boundary for external debt is based on the probable external debt needed during the course of the year. It is not a limit and actual borrowing could vary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similarly to the authorised limit it also provides scope for the council to borrow in advance of need.

Operational Boundary	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
	152	190	252	259	263

5. Authorised Limit

The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need.

Authorised Limit	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
	173	212	275	283	288

6. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Loan financed	6.2%	4.9%	5.0%	5.1%	5.0%

Royal Borough of Windsor & Maidenhead Approved Counterparty List
(Approved by Cabinet on 03/12/2019)

Fitch Ratings	FITCH ShortTerm Rating	FITCH Long Term Rating	FITCH Outlook	Max. Sum To Be Lent £m
UK Government				
Debt Management Office	F1+	AA	Negative (watch)	**no limit**
Banks				
Abbey National Treasury	F1	A	Stable	**5**
Australia and New Zealand Bank	F1+	AA-	Stable	**5**
Barclays Bank	F1	A+	Stable	**5**
Clydesdale Bank	F2	A-	Negative (watch)	**5**
HSBC	F1+	A+	Negative (watch)	**5**
Lloyds Banking Group	F1	A+	Negative (watch)	**7.5**
National Australia Bank Ltd	F1+	AA-	Negative	**5**
Royal Bank of Canada	F1+	AA	Stable	**5**
Royal Bank of Scotland	F1	A	Negative (watch)	**5**
Santander UK	F1	A+	Negative (watch)	**5**
Standard Chartered	F1	A	Stable	**5**
Ulster Bank	F1	A-	Negative (watch)	**5**
Building Societies (max £3m per loan)				
All Building Socieites with total group assets greater than £6 billion and FITCH Long term rating of BBB or better				
Coventry	F1	A-	Stable	**5**
Nationwide	F1	A	Negative (watch)	**5**
Yorkshire	F1	A-	Stable	**5**
Leeds	F1	A-	Stable	**5**
Skipton	F1	A-	Stable	**5**
Local Authorities				
All UK Local Authorities, with the exception of those with reported financial irregularities.				**5**
Money Market Funds				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		**5**
Invesco Sterling Liquidity Fund		AAA		**5**
Aberdeen Sterling Liquidity Fund		AAA		**5**
Insight GBP Liquidity Fund		AAA		**5**
LGIM Sterling Liquidity Fund		AAA		**5**
Revolving Credit Facility				
AFC				**11.7**
Financial Services Companies				
Kames Capital				**1**
Legal & General				**1.5**
RBWM associated companies				
Flexible Home Improvement Loans Ltd				**0.5**
RBWM Property Company Ltd				**1.5**

SHORT TERM RATING
Expectation of timely repayment of financial commitments.
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 the least risky, ie little credit risk. **AA** Very High Credit, **A** High, **BBB** Good.
Below BBB indicates non-investment grade