Agenda Item No 10

Bolsover District Council

Council

21 February 2018

Treasury Management Strategy 2018/19 - 2021/22

Report of Councillor Ann Syrett, Leader of the Council

This report is public

Purpose of the Report

The purpose of this report is to provide Council with the necessary information to approve the Council's Treasury Management Strategy 2018/19 to 2021/22.

1 Report Details

1.1 As part of the requirements of the CIPFA Treasury Management Code of Practice, the Council is required to develop every year a Treasury Management Strategy which requires approval by full Council before the commencement of each financial year.

This report outlines the Council's proposed Treasury Management Strategy, Capital Expenditure Strategy and Investment Strategy for the period 2018/19 to 2021/22 for consideration and approval by Council. It fulfils five key requirements:

- The Treasury Management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

- Within the strategy the Council is required to include a number of prudential indicators covering the next four financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

- The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge against the revenue accounts of the Council.

- The Investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

- The Capital Expenditure Strategy sets out the Council's Capital Expenditure Programme for the medium term and covers how this expenditure will be financed.

The above policies and parameters provide an approved framework within which officers undertake the day to day capital and treasury activities.

Introduction

1.2 The objectives of the Treasury Management Strategy are as follows: -

- To outline the Council's debt position and the impact this has on the revenue accounts and its links with the Capital Expenditure Strategy;
- To enable Members to reach appropriate judgements on long-term and short-term borrowing and investment strategies;
- To provide a framework within which the day to day liquidity of the Council's cash balances can be managed;
- To provide some key baseline information to enable appropriate reaction in response to changes in the money market to meet the statutory requirements of the Local Government Act 2003;
- To meet the requirements of the CIPFA Treasury Management Code of Practice.

1.3 This strategy includes:

- An outline of the statutory powers relating to the Council's Borrowings
- An overview of the current economic background
- A review of the Council's outstanding debt position
- A review of how the Council's debt is financed
- Minimum Revenue Provision Policy
- Investments Strategy
- The prudential indicators – **Appendix 2**
- Conclusion and Recommendations

The statutory powers relating to the Council's Borrowings

1.4 Before the report considers the full implications of the latest Medium Term Financial Plan (MTFP) on the level of the Council's outstanding debt Members are reminded of the prudential code framework that applies to Local Government.

1.5 The Prudential Capital Finance System relies on the provisions of Part 1 of the Local Government Act 2003.

1.6 The key objectives of the prudential code are to ensure that: -

- The capital investment plans of local authorities are affordable, prudent and at sustainable levels;

- To ensure and demonstrate that the local authority is aware of its financial position and therefore able to take corrective action should it be in danger of failing to ensure the above;

- To ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

1.7 By enabling a greater degree of local discretion the Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

1.8 The underlying principle of the Prudential Code is that local authorities are able to borrow without Government consent provided the authority can afford to enter into such commitments. This applies in respect of the General Fund but Council should note that with effect from April 2012 that the power to borrow for HRA purposes is limited by the HRA Debt Ceiling which was introduced as part of the localisation of the HRA.

1.9 It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Authorised Borrowing Limit.

1.10 The Council must have regard to the Prudential Code when setting its Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax/rent levels is acceptable.

1.11 Whilst termed an Authorised Borrowing Limit, the capital plans that need to be considered for inclusion within that limit incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements (leasing). The authorised borrowing limit is required to be set, on a rolling basis, for the forthcoming financial year and three successive financial years.

1.12 Details of the Authorised Borrowing Limits are shown in **Appendix 2** of this report.

An overview of the current economic climate

1.13 The major external influence on the Council's Treasury Management Strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements.

1.14 The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that the uncertainty over the future is weighing on growth. Therefore, the economic growth is forecast to remain sluggish throughout 2018/19.

1.15 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through into imports. With its inflation control in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.50% in November 2017.

1.16 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

1.17 High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

1.18 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans.

1.19 The largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

1.20 The Council's treasury adviser Arlingclose predicts that the UK Bank Rate will remain at 0.50% during 2018/19.

A review of the Council's outstanding Debt position

Capital Expenditure

1.21 The capital and investment decisions need to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external debt and whole life costing);
- Affordability (e.g. implications for the council tax, district rates and rents);
- Practicality (e.g. the achievability of the forward plan).

1.22 The Council also needs to consider the revenue consequences of capital expenditure, particularly none grant funded capital expenditure, which will need to be paid for from the Council's own resources.

1.23 This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc. or revenue resources) but if these resources are insufficient any residual expenditure will add to the Council's borrowing need. The key risks to the plans are that the level of some sources of funding, such as capital receipts, are estimated.

1.24 **Appendix 1** shows the Capital Expenditure Programme and how this is financed. This was included in the Medium Term Financial Plan which was taken to Executive on 19th February 2018.

1.25 **Table 1** summarises the Capital Expenditure and the sources of finance.

Table 1

	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Capital Expenditure					
General Fund	4,344	1,981	1,019	1,450	1,782
HRA	13,952	20,492	4,282	5,142	5,000
Total Capital Expenditure	**18,296**	**22,473**	**5,301**	**6,592**	**6,782**
Financed by:					
Capital Receipts	809	747	260	260	260
Capital Grants	858	600	600	600	600
Revenue Contributions	12,358	12,039	4,347	5,230	5,109
Net financing need for the year	**4,271**	**9,087**	**94**	**502**	**813**

1.26 To establish the Treasury Management Strategy for the forthcoming financial year it is essential to understand the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance capital expenditure. The revised estimate of the CFR for 2017/18 and the estimated CFR for 2018/19 to 2021/22 are shown in **Table 2**:

Table 2

Capital Financing Requirement	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
1 April balance	**98,881**	**113,472**	**121,805**	**121,054**	**120,736**
Prudential Borrowing	4,271	9,087	94	502	813
Minimum Revenue Provision (MRP)	(694)	(754)	(845)	(820)	(898)
HRA Debt Repayment - (adjustment)	11,014	0	0	0	0
Capital Financing Requirement 31 March	**113,472**	**121,805**	**121,054**	**120,736**	**120,651**

1.27 Prudential Borrowing – 2017/18

Prudential borrowing of a £4.271m is required during 2017/18 to finance vehicle and equipment replacement (£0.460m) and HRA new build properties (£3.811m).

1.28 Prudential Borrowing – 2018/19

In 2018/19 prudential borrowing of £9.087m will be required in order to finance vehicle and equipment replacements (£0.632m) and for HRA new build properties (£8.455m).

1.29 Prudential Borrowing – future years

The forecast for future years is 2019/20 (£0.094m), 2020/21 (£0.502m) and 2021/22 (£0.813m) to finance vehicle and equipment replacement.

How the Council's debt is financed

1.30 The Capital Financing Requirement as set out in **Table 2** calculates the authorities underlying need to borrow for capital purposes. Arising out of the analysis of the debt position the Council can determine how this debt is financed. The CFR also helps to ensure that where the Council is undertaking long term borrowing that such borrowing is being utilised in order to fund capital expenditure, and is not being used inadvertently or otherwise to fund revenue expenditure.

1.31 **Table 3** below outlines the current and planned debt financing arrangements over the term of the MTFP.

Table 3

Debt Financing	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
PWLB	102,100	102,100	99,100	97,100	93,400
Internal Borrowing	11,372	19,705	21,954	23,636	27,251
Capital Financing Requirement	**113,472**	**121,805**	**121,054**	**120,736**	**120,651**

1.32 PWLB Loans

The level of external Public Works Loan Board (PWLB) loans will reduce by £1m in 2017/18, £3m in 2019/20, £2m in 20/21 and £3.7m in 21/22 as short-term loans mature.

1.33 **Table 4** outlines the PWLB debt maturity profile of existing PWLB loans as at 31 March 2019.

Table 4

PWLB BORROWING **Term**	**Maturity Profile as at 31 March 2019 £m**
12 Months (2019/20)	5.0
1 – 2 years	3.7
2 – 5 years	7.4
5 – 10 years	24.0
10 years and above	62.0
Total PWLB Debt	**102.1**

1.34 Leasing Arrangements

The Council does not currently use leasing arrangements as a method of financing its vehicles and instead uses prudential borrowing. While prudential borrowing is currently a more advantageous method of financing the acquisition of vehicles and similar items officers will continue to keep the position under review.

1.35 Internal Borrowing

The balance between the level of the CFR and external borrowing is made up from the utilisation of internal cash balances held by the Council. This effectively avoids the Council having to borrow money from external sources.

1.36 The internal cash balances are made up from the General Fund Balance, HRA balances, Provisions and Earmarked Reserves and any positive cash flows from within the main accounts of the Council.

1.37 Where the Council has internal borrowing it is required under accounting regulations to ensure that the funds of the relevant accounts (HRA and General Fund) are treated equitably. The internal balances of the General Fund and the HRA are therefore paid an interest rate to reflect the level of internal borrowing from each of these main accounts. The Council will apply the short-term interest rate (London Interbank Three Month Bid (LIBID)) to internal borrowing balances.

1.38 Temporary Borrowing

It may be necessary at times to undertake some very short term temporary borrowing during the year to ensure the Council has sufficient liquidity to meet day to day cash flow requirements. This is most likely to arise as available cash flow balances diminish during February and March i.e. a lower level of Council Tax receipts are received in this period.

1.39 The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local Council loans and bank loans that may be available at more favourable rates.

1.40 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Derbyshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

1.41 Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

1.42 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

1.43 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term, to either use internal resources, or to borrow short-term loans instead.

1.44 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

1.45 Summary of the Proposed Borrowing Strategy

- Temporary Borrowing will only be utilised where short-term cash flow shortages occur.
- Internal balances will be utilised to reduce the need for external borrowing where possible, however, the continued availability of cash balances for investment will require careful management (see Investment Strategy later in report).
- Officers will monitor the position to ensure that external borrowing remains within the CFR limit.
- The current debt financing arrangements as outlined in **Table 3.**

Minimum Revenue Provision Policy

1.46 The Council is required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council.

Details of the proposed MRP policy for 2018/19 – 2021/22 are shown below:

Capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure, the Minimum Revenue Provision policy will be:

- **Historic Debt** - MRP will follow the existing practice outlined in former CLG Regulations (Option 1) - capital financing requirement minus "adjustment A" multiplied by 4%.

From 1 April 2008 for all capital expenditure funded by borrowing the Minimum Revenue Provision policy will be:

- **Asset Life Method** - MRP will be based on the estimated life of the assets.

In the case of finance leases the MRP would be equal to the charge that writes down the balance sheet liability.

1.47 Summary of MRP policy arrangements for 2017/18 and 2018/19

Table 5

	MRP 2017/18 £'000	**MRP 2018/19 £'000**
General Fund		
Historic Debt	175	169
Asset Life	519	585
Leased Assets	0	0
Total – General Fund	**694**	**754**

1.48 HRA Debt Repayments

There is no statutory requirement to set an MRP in relation to HRA debt. The decision to repay HRA debt is effectively a local decision taken in the light of the requirements to satisfy the Prudential Code namely affordability, prudence and sustainability.

1.49 HRA Debt Repayment

The Council completed the HRA self-financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Within the HRA business plan and HRA budgets there is a sum set-aside to repay the outstanding debt over a 30 year period. These repayments are put into a debt repayment reserve which stands at £11.014m as at 31st March 2017. The debt repayment reserve will be used to repay the debt arising from the self-financing settlement.

1.50 The Treasury Management Strategy of 20th February 2017 approved the reduction of this repayment from the previous level of £3.5m to just over £1.0m in 2016/17 due to a range of financial pressures including the 1% rent reduction imposed by Central Government. The aim is still to repay the debt over the period of the business plan which means that the HRA will need to increase its contribution to the reserve in future years.

1.51 The headroom available between the HRA outstanding debt (i.e. The HRA CFR) and the debt ceiling of £112.350m will be £0.507m by the end of 2018/19, which effectively means the HRA will not be in a position to undertake any further borrowing in the foreseeable future.

Investment Strategy

1.52 The Council holds on average £45 million invested funds as at February 2018, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £38 and £50 million, and similar levels are expected to be maintained in the forthcoming year.

1.53 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.54 If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

1.55 Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to continue to seek to place deposits with more secure asset classes during 2018/19.

1.56 The Council will consider and carefully balance the use of specified investments (less than one year) and non-specified investments (greater than one year) to ensure there is appropriate operational liquidity (i.e. that it has sufficient funds to meet the expenditure incurred).

1.57 The Council may invest its surplus funds with any of the counterparty types in **table 6** below, subject to the cash limits (per counterparty) and the time limits shown.

Table 6 – Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£5m 20 years	£5m 50 years	£5m 20 years	£1m 20 years
AA+	£5m 5 years	£5m 10 years	£5m 25 years	£5m 10 years	£1m 10 years
AA	£5m 4 years	£5m 5 years	£5m 15 years	£5m 5 years	£1m 10 years
AA-	£5m 3 years	£5m 4 years	£5m 10 years	£5m 4 years	£1m 10 years
A+	£2.5m 2 years	£5m 3 years	£5m 5 years	£2.5m 3 years	£1m 5 years
A	£2.5m 13 months	£5m 2 years	£5m 5 years	£2.5m 2 years	£1m 5 years
A-	£2.5m 6 months	£5m 13 months	£5m 5 years	£2.5m 13 months	£1m 5 years
None	n/a	n/a	£5m 25 years	n/a	£1m 5 years
Pooled funds	£5m per fund				

1.58 The above table is explained in more detail below:

1.59 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

1.60 **Banks unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

1.61 **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

1.62 **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, Parish Councils and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Parish Councils are charged an interest equivalent to the Bank Base Rate (Currently 0.50%).

1.63 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

1.64 **Registered providers**: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

1.65 **Pooled funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

1.66 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

1.67 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

1.68 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

1.69 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

1.70 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

1.71 **Specified investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or

- a body or investment scheme of “high credit quality”.

1.72 The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

1.73 **Non-specified investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in **table 7** below.

Table 7: Non-specified investment limits

	Cash limit
Total long-term investments	£10m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	£20m

1.74 A previous report to Council in 2017 agreed to provide investment funding to the Dragonfly Joint Venture Company of up to a maximum of £3.020m. This is classed as a non-specified investment.

1.75 **Investment limits**: The Council’s revenue reserves available to cover investment losses are forecast to be £15 million on 31st March 2018. In order that no more than 33% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. See **Table 8** below.

Table 8 – Investment limits

	Cash limit
Any single organisation ,including regional and Local Authorities (except the UK Central Government)	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Foreign countries	£5m per country
Registered providers	£10m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£30m in total
Lloyds Bank (as providers of operational banking services)	£5m overnight

1.76 **Liquidity management:** The Council uses its own cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

1.77 **Non-Treasury Investments**

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's subsidiaries.

Treasury Management Operations

1.78 Treasury Management Advisors

As mentioned earlier the Council uses external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies;

1.79 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review. It should be noted that the Council has Arlingclose Ltd as external treasury management advisors, for a period of 3 years commencing October 2016.

1.80 Member and Officer Training

It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Council has addressed these requirements by:

a. Members' individual training and development needs are addressed by a Member Development Programme.
b. Officers attend training seminars held by the external treasury management advisors and CIPFA.

1.81 Banking Contract

The contract with the Councils new banking provider Lloyds Bank commenced on the 10th February 2015 for a period of 7 years.

1.82 There is a requirement under the Local Government Act 2003 for Local Authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code). **Appendix 2** contains a number of indicators which are used to demonstrate adherence to the code.

2 Conclusions and Reasons for Recommendation

2.1 This report outlines the Council's proposed Treasury Management Strategy for the period 2018/19 to 2021/22 for consideration and approval by Council. It fulfils five key requirements:

- The Treasury Management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

- Within the strategy the Council is required to include a number of prudential indicators covering the next three financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

- The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council.

- The report also includes an investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

- The Capital Expenditure Strategy sets out the Council's Capital Expenditure Programme for the medium term and covers how this expenditure will be financed.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Consultation and Equality Impact

3.1 There are no equality issues arising from this report.

4 Alternative Options and Reasons for Rejection

4.1 Alternative options are considered throughout the report.

5 Implications

5.1 Finance and Risk Implications

5.1.1 These are considered throughout the report.

5.2 Legal Implications including Data Protection

5.21 As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

5.22 There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

5.3.1 There are no human resource implications arising directly out of this report.

6 Recommendations

6.1 It is recommended that Council approve the Treasury Management Strategy as set out in this report and in particular:

a) Approve the Capital Financing Requirement as summarised in **Table 2** of this report.

b) Approve the Borrowing Strategy as summarised in Section **1.45** of this report.

c) Approve the Minimum Revenue Provision Policy for 2018/19 as set out in Section **1.46**.

d) Approve the Investment Strategy as set out in Sections **1.52 – 1.77**.

e) Approve the use of the external treasury management advisors Counterparty Weekly List – or similar - to determine the latest assessment of the counterparties that meet the Council's Criteria under section **1.52 – 1.75** before any investment is undertaken.

f) Approve the Prudential Indicators for 2018/19 detailed in **Appendix 2**, in particular:

Authorised Borrowing Limit	£131,805,000
Operational Boundary	£126,805,000
Capital Financing Requirement	£121,805,000

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	N/A
District Wards Affected	N/A
Links to Corporate Plan priorities or Policy Framework	This Treasury Management Strategy is an integral part of the Council's Medium Term Financial Plan which links our financial position to the Corporate Plan and our other service strategies.

8 Document Information

Appendix No	**Title**
N/A	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Accountancy Section	
Report Author	**Contact Number**
Assistant Director – Finance, Revenues and Benefits Principal Accountant	01246 217658 01246 242459