| REPORT TO | ON |
|---|---|
| **COUNCIL** | 28th February 2018 |

September 2017

| TITLE | PORTFOLIO | REPORT OF |
|---|---|---|
| **Treasury Strategy 2018/19 to 2022/23** | **Finance** | **Deputy S151 Officer** |

| | |
|---|---|
| Is this report a **KEY DECISION** (i.e. more than £100,000 or impacting on more than 2 Borough wards?) | **Yes** |
| Is this report on the **Statutory Cabinet Forward Plan**? | **Yes** |
| Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council? | **No** |
| Is this report confidential? | **No** |

## 1. PURPOSE OF THE REPORT

1.1 To present the Prudential and Treasury Indicators and Treasury Management and Investment Strategies for 2018/19 to 2022/23, and the Minimum Revenue Policy Statement for 2018/19.

## 2. CABINET RECOMMENDATIONS

2.1 That Council approve:

- the Prudential Indicators for 2018/19 to 2022/23 in paragraphs 9.2, 9.3, 9.5, and 9.6.
- the annual Minimum Revenue Policy (MRP) statement in paragraph 9.4.
- the Treasury Strategy, and Treasury Indicators for 2018/19 to 2022/23 in paragraphs 10.6, 10.7 and 11.4.
- the Annual Investment Strategy including Investment Counterparties in section 11.

## 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

| | | | |
|---|---|---|---|
| Clean, green and safe | | Strong and healthy communities | |
| Strong South Ribble in the heart of prosperous Lancashire | | Efficient, effective and exceptional council | √ |

## 4. BACKGROUND TO THE REPORT

4.1 Council of 1 March 2017 approved the Treasury Management Strategy for 2017/18, including Prudential and Treasury Indicators, the Treasury Management and Investment Strategies, and the annual Minimum Revenue Provision (MRP) Policy Statement for 2017/18. Treasury Management activities during the year have been overseen by the Governance Committee.

4.2 This report updates Prudential and Treasury Indicators for financial years 2017/18 to 2019/20, and introduces provisional indicators for financial years 2020/21 to 2022/23. It presents updated Treasury Management and Investment Strategies, including a revised list of Investment Counterparties, and proposes the Minimum Revenue Policy Statement for 2018/19.

4.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

4.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

4.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

## 5. CAPITAL STRATEGY

5.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

5.2 The Capital Strategy from 2019/20 will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

5.3 The report **Capital Strategy 2018/19 to 2022/23** is not intended to meet this requirement of the CIPFA Codes. That report does not cover treasury management. All treasury management issues for 2018/19 and subsequent years are covered in this report.

## 6. TREASURY MANAGEMENT STRATEGY 2018/19

6.1 The strategy for 2018/19 covers two main areas:

**Capital issues**

- the capital plans and the Prudential Indicators;
- the Minimum Revenue Provision (MRP) policy.

**Treasury management issues**

- the current treasury position;
- Treasury Indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

6.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code, and MHCLG Investment Guidance.

6.3 On 2 February 2018 The Ministry of Housing, Communities & Local Government issued its Statutory Guidance on Local Government Investments (3rd edition) and Statutory Guidance on Minimum Revenue Provision. With the exception of some paragraphs, the adoption of the new MRP Guidance is from financial year 2019/20, but earlier adoption is encouraged. Strategies relating to 2018/19 and future financial years need not include all of the additional disclosures required by the investment guidance if not practical to do so. Any relevant new disclosures should be presented to Council in full in the first Strategy reported after 1 April 2018.

## 7. TRAINING

7.1 The CIPFA Code requires the Responsible Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be provided on the implications of the revised CIPFA Prudential and Treasury Management Codes, and the revised MHCLG Investment Guidance and MRP Guidance.

7.2 The training needs of treasury management officers are reviewed periodically. Both CIPFA and Link Asset Services provide workshops and seminars.

## 8. TREASURY MANAGEMENT CONSULTANTS

8.1 The Council uses Link Asset Services, Treasury solutions (formerly Capita Asset Services) as its external treasury management advisors.

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

8.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 9. CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2022/23 AND MRP STATEMENT

9.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 9.2 Capital expenditure

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

| **Table 1 - Capital Expenditure** | **2017/18 Revised £000** | **2018/19 Estimate £000** | **2019/20 Estimate £000** | **2020/21 Estimate £000** | **2021/22 Estimate £000** | **2022/23 Estimate £000** |
|---|---|---|---|---|---|---|
| Health, Leisure & Wellbeing | [redacted] | 1,950 | 4,100 | 15,600 | 1,850 | 950 |
| Place | [redacted] | 1,374 | 1,750 | 2,000 | 2,000 | 1,650 |
| Excellence & Financial Sustainability | [redacted] | 3,350 | 2,824 | 450 | 650 | 650 |
| Carried forward from 2017/18 programme | [redacted] | 1,477 | 0 | 0 | 0 | 0 |
| Total Capital Strategy 2018/19 - 2020/21 | 0 | 8,151 | 8,674 | 18,050 | 4,500 | 3,250 |
| 2017/18 Capital Programme | 3,004 | 0 | 0 | 0 | 0 | 0 |
| Additional finance lease liability | 124 | 104 | 0 | 0 | 0 | 0 |
| **Capital Expenditure Total** | **3,128** | **8,255** | **8,674** | **18,050** | **4,500** | **3,250** |

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| **Table 2 - Capital Financing** | **2017/18 Revised £000** | **2018/19 Estimate £000** | **2019/20 Estimate £000** | **2020/21 Estimate £000** | **2021/22 Estimate £000** | **2022/23 Estimate £000** |
|---|---|---|---|---|---|---|
| Capital Receipts | 228 | 450 | 2,000 | 1,000 | 950 | 1,600 |
| Grants & Contributions | 1,659 | 1,394 | 2,750 | 2,760 | 1,800 | 1,450 |
| Revenue and Reserves | 832 | 3,839 | 2,124 | 800 | 800 | 200 |
| **Net financing needed for year** | **409** | **2,572** | **1,800** | **13,490** | **950** | **0** |

## 9.3 The Council’s borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (finance leases). Whilst these increase the CFR, and therefore the Council’s borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

| Table 3 - Capital Financing Requirement | 2017/18 Revised £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|---|
| Opening CFR | 5,302 | 4,722 | 6,360 | 6,971 | 19,203 | 18,380 |
| Net financing need for the year (Table 2) | 409 | 2,572 | 1,800 | 13,490 | 950 | 0 |
| Less MRP/VRP | (989) | (934) | (1,189) | (1,258) | (1,773) | (1,790) |
| **Closing CFR** | **4,722** | **6,360** | **6,971** | **19,203** | **18,380** | **16,590** |

## 9.4 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Policy Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1).

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in finance leases are applied as MRP.

9.5 **Affordability prudential indicators**

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

**Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| Table 4 - Ratio of Financing Costs to Net Revenue Stream | 2017/18 Estimate % | 2018/19 Estimate % | 2019/20 Estimate % | 2020/21 Estimate % | 2021/22 Estimate % | 2022/23 Estimate % |
|---|---|---|---|---|---|---|
| Ratio | 8.36 | 7.95 | 10.79 | 11.82 | 17.06 | 16.99 |

The estimates of financing costs include current commitments and the proposals in the budget and capital strategy reports.

9.6 **Core funds and expected investment balances**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

| Table 5 - Year-End Resources | 2017/18 Revised £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|---|
| Fund balances / reserves | (26,739) | (20,278) | (16,932) | (14,127) | (13,633) | (13,411) |
| Capital receipts | (1,856) | (1,500) | (1,000) | (500) | (100) | 0 |
| Provisions | (1,200) | (1,200) | (1,200) | (1,200) | (1,200) | (1,200) |
| **Total core funds** | (29,795) | (22,978) | (19,132) | (15,827) | (14,933) | (14,611) |
| Working capital* | (4,500) | (4,250) | (4,000) | (4,000) | (4,000) | (4,000) |
| Under/(over) borrowing (Table 6) | 3,973 | 4,073 | 3,125 | 2,163 | 1,790 | 0 |
| **Expected investments** | **(30,322)** | **(23,155)** | **(20,007)** | **(17,664)** | **(17,143)** | **(18,611)** |

*Working capital balances shown are estimated year-end; these may be higher mid-year

**10. BORROWING**

10.1 The capital expenditure plans set out in paragraph 9.2 above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury / Prudential Indicators, the current and projected debt positions and the annual Investment Strategy.

10.2 **Current portfolio position**

10.3 The Council's treasury portfolio position at 31 March 2017, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| **Table 6 - Portfolio Position** | **2017/18 Revised £000** | **2018/19 Estimate £000** | **2019/20 Estimate £000** | **2020/21 Estimate £000** | **2021/22 Estimate £000** | **2022/23 Estimate £000** |
|---|---|---|---|---|---|---|
| Debt at 1 April | 0 | 0 | 1,750 | 3,550 | 17,040 | 16,590 |
| Other long-term liabilities (OLTL) | 941 | 749 | 537 | 296 | 0 | 0 |
| Total gross debt 1 April | 941 | 749 | 2,287 | 3,846 | 17,040 | 16,590 |
| Expected change in Debt | 0 | 1,750 | 1,800 | 13,490 | (450) | 0 |
| Expected change in OLTL | (192) | (212) | (241) | (296) | 0 | 0 |
| Expected change in gross debt | (192) | 1,538 | 1,559 | 13,194 | (450) | 0 |
| Gross debt 31 March | 749 | 2,287 | 3,846 | 17,040 | 16,590 | 16,590 |
| Capital Financing Requirement (Table 3) | 4,722 | 6,360 | 6,971 | 19,203 | 18,380 | 16,590 |
| **Under / (over) borrowing** | **3,973** | **4,073** | **3,125** | **2,163** | **1,790** | **0** |

10.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

10.5 The Deputy S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

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

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Table 7 - Operational Boundary | 2017/18 Revised £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|---|
| Debt | 0 | 1,750 | 3,550 | 17,040 | 16,590 | 16,590 |
| Other long-term liabilities | 749 | 537 | 296 | 0 | 0 | 0 |
| **Operational Boundary** | **749** | **2,287** | **3,846** | **17,040** | **16,590** | **16,590** |

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following authorised limit:

| Table 8 - Authorised Limit | 2017/18 Revised £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|---|
| Debt | 3,000 | 4,750 | 6,550 | 20,040 | 19,590 | 19,590 |
| Other long-term liabilities | 749 | 537 | 296 | 0 | 0 | 0 |
| **Authorised Limit** | **3,749** | **5,287** | **6,846** | **20,040** | **19,590** | **19,590** |

10.7 **Maturity structure of borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

| Table 9 - Maturity Structure of Borrowing | | |
|---|---|---|
| **Maturity structure of fixed interest rate borrowing 2018/19** | | |
| | **Lower** | **Upper** |
| Under 12 months | 0% | 0% |
| 12 months to 2 years | 0% | 0% |
| 2 years to 5 years | 0% | 0% |
| 5 years to 10 years | 0% | 0% |
| Over 10 years | 0% | 100% |

It is not anticipated that any borrowing will be taken at variable interest rates.

10.8 **Control of interest rate exposure**

Please see paragraphs 10.9, 11.4 and Appendix A.

Appendix A compares the forecast of a year ago with that prepared for the mid-year review, and the current forecast.

10.9 **Borrowing strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Deputy S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Any decisions will be reported at the next available opportunity.

10.10 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

## 11. ANNUAL INVESTMENT STRATEGY

11.1 **Investment Policy**

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be **S**ecurity first, portfolio **L**iquidity second, and only then return (**Y**ield).

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

**Treasury Management Practice 1 (TMP1)** deals with credit and counterparty risk management. In applying this practice, the following limits are relevant:

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria.  A maximum of £5m will be held in aggregate in non-specified investments, specifically term deposits with UK local authorities.

### 11.2 Creditworthiness policy

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

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

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

| | |
|---|---|
| **Yellow** | 5 years |
| **Purple** | 2 years |
| **Blue** | 1 year (only applies to nationalised or semi nationalised UK Banks) |
| **Orange** | 1 year |
| **Red** | 6 months |
| **Green** | 100 days |
| **No colour** | Not to be used |

The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

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

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

All credit ratings will be monitored weekly, and will be checked at the time of placing investments. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service, and has access to the websites of Fitch, Moody's and Standard & Poor's.

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

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

## Investment Counterparties 2018/19

| Category | Institutions | LAS Colour Code | Maximum Period | Limit per Institution |
|---|---|---|---|---|
| | | | | |
| **Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)** | | | | |
| Government related/guaranteed | DMADF (DMO)<br>UK Local Authority | Yellow<br>Yellow | 6 months<br>2 years | Unlimited<br>£5m per LA |
| UK part-nationalised institutions | Royal Bank of Scotland group | Blue | 1 year | £5m per group |
| UK-incorporated Institutions | UK banks and building societies of high credit quality | Orange<br>Red<br>Green | 1 year<br>6 months<br>3 months | £5m per group (or independent institution) |
| Non-UK Banks | Non-UK banks of high credit quality | Orange<br>Red<br>Green | 1 year<br>6 months<br>3 months | £4m per group (or independent institution); £8m in total for this category |
| | | | | |
| **Money Market Funds** | | | | |
| Money Market Funds (CNAV) ** | MMFs of high credit quality - AAA rated | | Instant access | £5m per fund |
| Enhanced Money Market Funds (VNAV) | EMMFs of high credit quality - AAA rated | | T+2 or T+3 | **DELETE this category** |

Changes from the Investment Counterparties maximum periods and limits for 2017/18 are in **bold.**

** Funds used by the council in 2017/18 were BlackRock, Federated, and Standard Life.

11.3 **Country limits**

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

Currently the only approved non-UK counterparty is German bank Landesbank Hessen-Thueringen Girozentrale (Helaba). The Council has invested a maximum of £4m with this counterparty, but could deposit up to £4m in addition with other non-UK counterparties of high credit quality, the maximum sum to be invested with non-UK banks being £8m.

**APPROVED COUNTRIES FOR INVESTMENTS**

AAA
- Denmark
- Germany
- Luxembourg
- Netherlands
- Sweden

AA+
- Finland

AA
- France
- U.K.

AA-
- Belgium

11.4 **Investment strategy**

**In-house funds**
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations**
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

| | **Now** | **2017/18 report** |
|---|---|---|
| 2017/18 | 0.40% | 0.25% |
| 2018/19 | 0.60% | 0.25% |
| 2019/20 | 0.90% | 0.50% |
| 2020/21 | 1.25% | 0.75% |
| 2021/22 | 1.50% | 1.00% |
| 2022/23 | 1.75% | 1.50% |
| 2023/24 | 2.00% | 1.75% |
| Later years | 2.75% | 2.75% |

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

**Investment Treasury Indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

| Table 10 - Maximum Principal Sums Invested > 365 Days | 2017/18 Revised £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|---|---|
| UK Government | 0 | 0 | 0 | 0 | 0 | 0 |
| UK Local Authorities | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| UK Banks & Building Societies | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-UK Banks | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **5,000** | **5,000** | **5,000** | **5,000** | **5,000** | **5,000** |

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

11.5 **Investment Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID plus 15%.

11.6 **End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

11.7 **Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, officers will review the accounting implications of new transactions before they are undertaken.

11.8 **Impact of MIFID II reforms from 3 January 2018**

Under MIFID II, all local authorities are now classified by default as retail counterparties and have to consider whether to opt up to professional status and for which types of investments. Where required by counterparties, this Council has opted up to professional status and to date has not lost the ability to invest with existing counterparties.

## 12. COMMENTS OF THE ACTING STATUTORY FINANCE OFFICER

12.1 This report sets out in detail, and requests approval of, the Treasury Management and Investments Strategies for the Council, which includes the proposed funding of the 5 year Capital Strategy, which is a separate item on this agenda. In adherence with best practice, this report also updates the projected Prudential and Treasury Indicators.

12.2 The current MRP policy has been reviewed in line with current guidance and it meets the requirement for a prudent provision. This report therefore asks Cabinet to recommend to Council the MRP Policy Statement for 2018/19 (paragraph 9.4).

## 13. COMMENTS OF THE MONITORING OFFICER

13.1 The Treasury Strategy and associated documents are designed to ensure compliance with all relevant regulations and statutory codes of practice.

## 14. BACKGROUND DOCUMENTS

CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
CIPFA Treasury Risk Management Toolkit for Local Authorities
CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
CIPFA Standards of Professional Practice: Treasury Management
DCLG/MHCLG Guidance on Local Government Investments
DCLG/MHCLG Guidance on Minimum Revenue Provision

APPENDIX A – Comparison of Interest Rate Forecasts

**Jane Blundell**
**Deputy Section 151 Officer**

| Report Author: | Telephone: | Date: |
|---|---|---|
| Michael Jackson<br>Principal Financial Accountant | 01257<br>515490 | 22/1/18 |

**APPENDIX A**

**Comparison of Interest Rate Forecasts – Treasury Strategy 2017/18 – 2019/20 (Mar 2017), Treasury Management Activity Mid-Year Review 2017/18 (rates Aug 17), and Treasury Strategy 2018/19 – 2020/21 (Dec 2017)**

| | Bank Rate % | | | PWLB Borrowing Rates % (including 0.20% certainty rate adjustment) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 5 year | | | 10 year | | | 25 year | | | 50 year | | |
| | Dec 17 | Aug 17 | Mar 17 | Dec 17 | Aug 17 | Mar 17 | Dec 17 | Aug 17 | Mar 17 | Dec 17 | Aug 17 | Mar 17 | Dec 17 | Aug 17 | Mar 17 |
| Mar-18 | 0.50 | 0.25 | 0.25 | 1.60 | 1.60 | 1.70 | 2.20 | 2.30 | 2.30 | 2.90 | 2.90 | 3.00 | 2.60 | 2.70 | 2.80 |
| Jun-18 | 0.50 | 0.25 | 0.25 | 1.60 | 1.70 | 1.70 | 2.30 | 2.30 | 2.40 | 3.00 | 3.00 | 3.00 | 2.70 | 2.80 | 2.80 |
| Sep-18 | 0.50 | 0.25 | 0.25 | 1.70 | 1.70 | 1.70 | 2.40 | 2.40 | 2.40 | 3.00 | 3.00 | 3.10 | 2.80 | 2.90 | 2.90 |
| Dec-18 | 0.75 | 0.25 | 0.25 | 1.80 | 1.80 | 1.80 | 2.40 | 2.40 | 2.40 | 3.10 | 3.10 | 3.10 | 2.90 | 2.90 | 2.90 |
| Mar-19 | 0.75 | 0.25 | 0.25 | 1.80 | 1.80 | 1.80 | 2.50 | 2.50 | 2.50 | 3.10 | 3.10 | 3.20 | 2.90 | 2.90 | 3.00 |
| Jun-19 | 0.75 | 0.50 | 0.50 | 1.90 | 1.90 | 1.90 | 2.60 | 2.50 | 2.50 | 3.20 | 3.20 | 3.20 | 3.00 | 3.00 | 3.00 |
| Sep-19 | 0.75 | 0.50 | 0.50 | 1.90 | 1.90 | 1.90 | 2.60 | 2.60 | 2.60 | 3.20 | 3.30 | 3.30 | 3.00 | 3.00 | 3.10 |
| Dec-19 | 1.00 | 0.75 | 0.75 | 2.00 | 2.00 | 2.00 | 2.70 | 2.60 | 2.60 | 3.30 | 3.30 | 3.30 | 3.10 | 3.10 | 3.10 |
| Mar-20 | 1.00 | 0.75 | 0.75 | 2.10 | 2.00 | 2.00 | 2.70 | 2.70 | 2.70 | 3.40 | 3.30 | 3.40 | 3.20 | 3.10 | 3.20 |
| Jun-20 | 1.00 | | | 2.10 | | | 2.80 | | | 3.50 | | | 3.30 | | |
| Sep-20 | 1.25 | | | 2.20 | | | 2.90 | | | 3.50 | | | 3.30 | | |
| Dec-20 | 1.25 | | | 2.30 | | | 2.90 | | | 3.60 | | | 3.40 | | |
| Mar-21 | 1.25 | | | 2.30 | | | 3.00 | | | 3.60 | | | 3.40 | | |