11. APPENDIX B

TREASURY MANAGEMENT STRATEGY 2019/20

Introduction

1 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Council's treasury management function primarily ensures that the organisations cash flow is properly managed and that cash is available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

1.2 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 future borrowing needs 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest cost of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss of income to the General Fund.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury activities.

1.5 CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "*

1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a Capital Strategy, to provide a longer-term focus to the capital plans. The capital strategy is being reported separately.

Reporting Requirements

Capital Strategy

1.7 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-2020, all local authorities to prepare an additional report, a Capital Strategy report, which will provide the following:

- A high-level long term 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 the Capital Strategy is to ensure that elected members understand the long term policy objectives and resulting capital requirements, governance procedures and risk appetite of the Council.

Treasury Management Reporting

1.8 The following reports are made during the year:

a. Before the start of the financial year – Capital plans (including prudential indicators), a minimum revenue provision policy, a Treasury Management Strategy including treasury Indicators and an investment strategy.

b. During the year – any updates that are required will be reported through the Durable Budget Reports (incl. a mid year position report)

c. At the end of the year – the actual prudential and treasury indicators will be reported as part of the Councils' out-turn reports.

The above reports are reported to the Executive, whose role is to recommend these reports to Council.

Treasury Management Consultants:

1.9 The Council uses Link Asset Services Treasury solutions as its external treasury management advisors.

1.10 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.

1.11 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.

2 Treasury Management Strategy for 2019/20

2.1 The strategy for 2019/20 covers three main areas (in line with the requirements of recommended best practice);

Capital:
- Section A The Capital Plans and Prudential Indicators 2019/20 – 2023/24;
- Section B Minimum Revenue Provision Strategy and Policy Statement 2019/20;

Treasury Management:
- Section C Affordability Indicators;
- Section D Current Treasury Position;
- Section E Treasury Indicators 2019/20 – 2023/24;
- Section F Prospects for Interest Rates;
- Section G Borrowing Strategy;
- Section H Policy on Borrowing in Advance of Need;
- Section I Debt Rescheduling;
- Section J Municipal Bonds Agency;

Investment Strategy:
- Section K Investment Policy;
- Section L Creditworthiness Policy;
- Section M Cash Flow Investment Strategy;
- Section N Policy on use of External Service Providers;
- Section O Investments that are not part of treasury management activity.

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

CAPITAL

Section A - The Capital Plans and Prudential Indicators 2019/20 – 2023/24

2.3 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.

2.4 *Capital Expenditure* - this Prudential Indicator is a summary of the Council's capital expenditure plans (as currently contained in the Councils draft budgets);

TABLE 1	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Capital Expenditure	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Private Sector Housing Improvement	640	846	500	500	500	500	500
Invest and Repair Programme	563	428	758	360	260	260	260
Community Project Schemes	100	195	1,280	32	482	182	32
IT Investment Programme	266	265	310	220	220	220	220
Town Centre Delivery Plan	0	690	100	0	0	0	0
Commercial Investments	35,065	32,256	20,000	20,000	20,000	20,000	20,000
Invest to Save Projects	167	5,235	2,520	2,800	4,300	2,800	300
HRA	4,071	7,386	3,822	4,159	4,430	4,500	4,260
Total Capital Programme	**40,871**	**47,301**	**29,290**	**28,071**	**30,192**	**28,462**	**25,572**
Leases	0	0	90	3,700	0	90	0
Total Capital Expenditure	**40,871**	**47,301**	**29,380**	**31,771**	**30,192**	**28,552**	**25,572**

TABLE 2	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Capital Expenditure / Financing	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA	36,800	39,915	25,468	23,912	25,762	23,962	21,312
HRA	4,071	7,386	3,822	4,159	4,430	4,500	4,260
Total Capital Programme	**40,871**	**47,301**	**29,290**	**28,071**	**30,192**	**28,462**	**25,572**
Leases	0	0	90	3,700	0	90	0
Total Capital Expenditure	**40,871**	**47,301**	**29,380**	**31,771**	**30,192**	**28,552**	**25,572**
Financed By							
Capital Grants	655	1,190	1,778	500	500	500	500
Capital Receipts	1,498	2,213	1,324	1,478	1,689	1,698	1,396
Revenue Contribution	2,755	2,589	2,728	2,821	2,881	2,942	3,004
Net financing need for the year	35,963	41,309	23,550	26,972	25,122	23,412	20,672

2.5 The Capital Financing Requirement (CFR) is used to measure the Council's borrowing need. 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.6 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 asset life, and so charges the economic consumption of capital assets as they are used.

TABLE 3	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Capital Financing Requirement As at 31 March	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-HRA	50,149	87,044	108,087	132,170	153,898	173,439	189,729
HRA	60,723	60,445	56,945	53,445	50,445	47,445	43,945
TOTAL	110,873	147,489	165,032	185,615	204,343	220,884	233,674
Movement In CFR	32,013	36,616	17,543	20,583	18,728	16,541	12,790

TABLE 4	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Movement in CFR represented by	**actual**	**Latest Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net financing need for the year	35,963	41,309	23,550	26,972	25,122	23,412	20,672
Less MRP and other financing movements	3,950	4,693	6,007	6,389	6,394	6,871	7,882
Movement In CFR	32,013	36,616	17,543	20,583	18,728	16,541	12,790

2.7 A key aspect of the regulatory and professional guidance is that the size and scope of commercial activity is shown in relation to the authority's overall capital expenditure plans. These figures are detailed in Tables 1 and 4.

2.8 *The Use of the Council's Resources and the Investment Position* - 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. Detailed in Table 5 are estimates of the year end balances for each resource and anticipated day to day cash flow balances. The table reflects the under/over borrowing position of the Council, this is reflected in the internal borrowing line. This explained further in Table 9.

TABLE 5	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Year End Resources	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund balances	2,265	2,225	2,185	2,145	2,145	2,145	2,145
Reserves	26,552	26,913	26,679	26,179	26,329	26,479	26,179
Capital receipts	4,554	3,156	3,560	3,810	3,849	3,879	4,211
Total core funds	33,371	32,294	32,424	32,134	32,323	32,503	32,535
Working capital	4,949	4,949	4,949	4,949	4,949	4,949	4,949
Less: Internal Borrowing	9,751	8,756	6,976	4,718	1,985	(1,226)	(949)
Expected investments	28,569	28,487	30,397	32,365	35,287	38,678	38,433

Section B - Minimum Revenue Provision Strategy and Policy Statement 2019/20

2.9 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), and it can also make additional voluntary payments (Voluntary Revenue Provision - VRP).

2.10 MHCLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year – the following strategy is a continuation of the successful strategy used in 2018/19:

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 MHCLG 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 (including 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 proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3). This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.11 **MRP Overpayments** – A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

2.12 **MRP Holiday** - The Council may incur expenditure that does not involve the creation of an asset on the Council's balance sheet, but instead may be in the form of a long-term debtor arising from loans or other types of capital expenditure made by the Council. Under such arrangements, there will be no Minimum Revenue Provision made, as the Council will earmark subsequent repayments as capital receipts and set these sums aside to reduce the overall debt liability (Capital Financing Requirement) of the Council. Any such schemes will be reviewed on a case by case basis to ensure that the Council continues to meet its requirement to make a prudent provision each year.

2.13 The Authority has opted to charge the HRA on an annual basis and make provision for the repayment of its debt liability.

2.14 Repayments included in annual finance leases are applied as MRP.

Section C - Affordability Prudential Indicators 2019/20 – 2023/24

2.15 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.

2.16 Actual and estimates of the 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 6	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Ratio of financing cost to net Revenue stream	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
Non-HRA	4.32%	22.29%	41.52%	56.99%	72.92%	86.51%	98.03%
HRA	11.48%	10.59%	10.25%	10.24%	10.02%	9.58%	9.05%

2.17 *HRA Ratios* - The table below shows the ratio of HRA debt to HRA revenues. HRA revenues are based on the HRA Business Plan.

TABLE 7	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Ratio of HRA Debt to HRA Revenues	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
HRA debt	61	60	57	53	50	47	44
HRA revenues	15	16	16	16	16	16	17
Ratio of debt to revenues %	395%	378%	356%	334%	315%	297%	259%

2.18 The table below shows the ratio of HRA debt to the number of HRA dwellings. The number of HRA dwellings in 2018/19 is based on the latest projections for the year while from 2019/20 onwards is based on the HRA MTFS.

TABLE 8	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Ratio of HRA Debt to Number of dwellings	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
HRA debt £m	61	60	57	53	50	47	44
Number of HRA dwellings	3,691	3,654	3,652	3,622	3,592	3,562	3,532
Debt per dwelling £'000	16.45	16.54	15.59	14.76	14.04	13.32	12.44

TREASURY MANAGEMENT

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

Section D - Current Treasury Position

2.20 The overall treasury management portfolio as at 31 March 2018 and at 31 Decembr 2018 are shown below for both borrowing and investments.

Treasury Portfolio				
Treasury investments	**actual 31.3.18 £000**	**actual 31.3.18 %**	**current 31.12.18 £000**	**current 31.12.18 %**
Banks	11,074	55	16,573	56
Building Societies	0	0	0	0
Local authorities	4,000	20	3,000	10
Total managed in house	**15,074**	**74**	**19,573**	**66**
Property funds	5,168	26	10,000	34
Total managed externally	**5,168**	**26**	**10,000**	**34**
Total treasury investments	**20,242**	**100**	**29,573**	**100**
Treasury external borrowing				
Local authorities	3,500	4	3,500	4
PWLB	95,003	96	96,003	96
Total external borrowing	**98,503**	**100**	**99,503**	**100**
Net treasury investments / (borrowing)	**(78,261)**	**0**	**(69,930)**	**0**

2.21 The net financing need for the year illustrates that based upon the latest estimates for 2018/19 borrowing of £41.3m will be required to finance the programme. This is in accordance with the Council's guiding principles. Although in the past the Council has not had to borrow from external sources for this funding, it has in effect borrowed the money 'from itself' from other cash holdings that the Council has. This internal borrowing over the past many years means that the council does not hold significant 'cash backed' reserves. The Council currently has long term HRA debt which was required to enact the self-financing transaction and has used long term loans as a means of financing its Capital Strategy. Any borrowing is undertaken in line with the prudential indicators and the borrowing strategy outlined in Section G.

2.22 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

TABLE 9	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	actual	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
External Debt							
Debt at 1 April	61,435	100,393	138,040	157,398	180,272	201,764	221,546
Expected change in Debt	38,958	37,647	19,358	22,874	21,492	19,782	12,542
Debt at 31 March	**100,393**	**138,040**	**157,398**	**180,272**	**201,764**	**221,543**	**234,088**
Other long term liabilities (OLTL) 1 April	4,124	729	693	658	625	594	564
Expected change in other OLTL	(3,395)	(36)	(35)	(33)	(31)	(30)	(29)
Other long term liabilities (OLTL) 31 March	**729**	**693**	**658**	**625**	**594**	**564**	**535**
Actual Gross Debt at 31 March	**101,122**	**138,733**	**158,056**	**180,897**	**202,358**	**222,110**	**234.623**
The Capital Financing Requirement	110,873	147,489	165,032	185,615	204,343	220,884	233,674
Under / (over) borrowing	9,751	8,756	6,976	4,718	1,985	(1,226)	(949)
Total Investments at 31 March							
Expected Investments	28,569	28,487	30,397	32,365	35,287	38,678	38,433
Net Debt	72,553	110,246	127,659	148,532	167,071	183,432	196,190

2.23 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the Council's budget reports that are currently under consideration.

Section E - Treasury Indicators for 2019/20 to 2023/24

2.24 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 "Affordable Borrowing Limit". In England and Wales the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

2.25 The following indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. These are technical calculations, which are required to be set to comply with statute. The figures fall out of the Council's budget for 2019/20 and are created by applying a number of statutory calculations.

2.26 *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.

TABLE 10	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Operational Boundary for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	125,000	151,250	170,000	190,000	210,000	230,000	240,000

2.27 *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.

TABLE 11	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Authorised limit for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	130,000	156,250	175,000	195,000	215,000	235,000	245,000

Section F - Prospects for Interest Rates

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

Link Bank Rate forecast for financial year ends (March)

- 2018 / 2019 0.75%
- 2019 / 2020 1.25%
- 2020 / 2021 1.50%
- 2021 / 2022 2.00%

2.29 The overall balance of risks to economic recovery in the UK is probably neutral; the balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth
- The Bank of England takes action too quickly, or too far, over the next three years to raise Interest Rates and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Political uncertainty, due to vulnerable minority governments, in Germany and other Eurozone governments, such as Belgium and Spain, could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy has also elected a strongly anti-immigration government. Elections to the EU Parliament are due in May/June 2019.
- Rising protectionism under President Trump

- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

2.31 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, include:

- Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than currently expected.
- Higher levels of UK inflation.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate could impact bond yield around the world.

Section G - Borrowing Strategy

2.32 *Borrowing rates* - The latest monthly Link forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows: -

(Link Interest rate forecast – 7th January 2019)

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-21
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.60%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%

2.33 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 external loans as cash supporting the Council's reserves, balances and cash flow has been used as a short term measure. This strategy is prudent as investment returns are low and counterparty risk is high.

2.34 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. Interest rates will be closely monitored and a pragmatic approach will be adopted to any changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, then long term borrowings will be considered, 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, then the portfolio position will be re-appraised

with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than projected levels in the next few years.

2.35 *Treasury Management Limits on Activity* - there are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- 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.

Section H - Policy on Borrowing in Advance of Need

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

2.37 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.

Section I – Debt Rescheduling

2.38 When short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

2.39 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.40 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.41 All rescheduling will be reported to the Council, at the earliest meeting following its action.

Section J – Municipal Bond Agency

2.42 It is possible that the Municipal Bond Agency (MBA) will be offering further loans to local authorities in the future. The MBA is aiming to have lower borrowing rates in the medium term when compared to the Public Works Loan Board (PWLB). This Authority will consider whether to make use of this alternative source of borrowing as and when appropriate.

Annual Investment Strategy

Section K - Investment Policy: management of risk

2.43 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

2.44 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes 2017 and CIPFA Treasury Management Guidance Notes 2018. The Council's overall investment priorities are:

- Security; the creditworthiness of the counterparty and;
- Liquidity; how readily available cash is; the term of the investment.

2.45 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.46 In accordance with guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list (Table 13). The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Link ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

2.47 The Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain and monitor on market pricing such as "Credit Default Swaps" (CDS) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Link Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

2.48 Other information sources used will include the financial press, 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.

2.49 As a result of the change in accounting standards for 2018/19 under IFRS 9 Financial Instruments (which covers classification and measurement for financial instruments and impairment of financial assets including Property Funds), this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018.)

2.50 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.The intention of the strategy is to provide security of investment and minimisation of risk.

Section L - Creditworthiness Policy

2.51 This Council uses the creditworthiness service provided by Link Asset Services. This service employs sophisticated modelling utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings are supplemented with the following overlays: -

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

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

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

2.53 The Link Asset Services creditworthiness service uses a wider array of information rather than just primary ratings and by using a risk weighted scoring system minimises exposure to just one agency's ratings.

2.54 Typically the Council will use a Short Term rating (Fitch or equivalents) of F1 (strong capacity to meet financial commitments) and a Long Term rating of A- (high credit quality) for its minimum credit ratings criteria. On occasion, the counterparty ratings from one rating agency may be marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available and other topical market information, to support their use.

2.55 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark (A set of CDS indices) and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

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

2.57 Time and monetary limits applying to investments. The Council will only use UK institutions. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

TABLE 12	**Minimum credit criteria / colour band**	**Max % of total investments**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	AAA	100%	5 years
UK Government Treasury blls	AAA	100%	5 years
Bonds issued by multilateral development banks	AAA	100%	6 months
Money market funds	AAA	100%	Liquid
Local authorities	N/A	100%	10 years
Term deposits with banks and building societies	Yellow Dark Pink Light Pink Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 5 years (USDBF 1.25) Up to 5 years (USDBF 1.5) Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Gilt funds	AAA	100%	
Property funds			

Property funds are a longer-term investment tool, generally with an investment period of over 2 years. Balances available for investment will be based on the projected level of reserves and balances available for longer-term investment and appropriate due diligence will be undertaken before investing in Property Funds.

Section M – Cash Flow Investment Strategy

2.58 The Council's funds are mainly cash-flow derived. The Council will seek to utilise its notice and call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

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

- 2018 / 2019 0.75%
- 2019 / 2020 1.00%
- 2020 / 2021 1.50%
- 2021 / 2022 1.75%

2.60 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.

TABLE 13	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Principal sums invested for longer than 365 days	10,000	15,000	20,000	20,000	20,000	20,000	20,000

Section N - Policy on the use of External Service Providers

2.61 The Council continues to use Link Asset Services, as its external treasury management advisors for 2019/20.

2.62 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.

2.63 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.

Section O – Investments that are not part of treasury management activity

2.64 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment in property. The Council will ensure that all the organisation's investments are covered in the capital strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. The risk appetite for these activities may differ from that for treasury management.

Note: All indicators have been reviewed by our external treasury advisors Link Treasury Services.