CABINET

12 FEBRUARY 2019

REPORTS OF THE CHIEF EXECUTIVE

7. CLLR HARVEY FULL COUNCIL MOTION – ADOPTION OF THE CO-OPERATIVE PARTY CHARTER INTO MODERN SLAVERY

Director of Finance on behalf of the Cabinet Members for Finance and Community Safety and Corporate Services

RECOMMENDED that the Cabinet considers whether the Council should adopt the Co-operative Party's Charter against Modern Slavery.

Purpose

To consider the motion put forward by Councillor Harvey at the last meeting of the Council that the co-operative Party's Charter against Modern Slavery should be adopted.

Background

The Co-operative Party is a political party supporting co-operative values and principles. Established in 1917, the Co-operative Party was founded by co-operative societies to politically campaign for the fairer treatment of co-operative enterprise and to elect co-operators to Parliament. Since 1927, the Co-operative Party has had an electoral pact with the Labour Party.

The Co-operative Party's Charter against Modern Slavery

The Co-operative Party's Charter against Modern Slavery seeks commitment from local councils to proactively vet their own supply chain to ensure no instances of modern slavery are taking place. In particular, local Councils are asked to:

- Train its corporate procurement team to understand modern slavery through the Chartered Institute of Procurement and Supply's (CIPS) online course on Ethical Procurement and Supply.
- Require its contractors to comply fully with the Modern Slavery Act 2015, wherever it applies, with contract termination as a potential sanction for non-compliance.
- Challenge any abnormally low-cost tenders to ensure they do not rely upon the potential contractor practising modern slavery.
- Highlight to its suppliers that contracted workers are free to join a trade union and are not to be treated unfairly for belonging to one.
- Publicise its whistle-blowing system for staff to blow the whistle on any suspected examples of modern slavery.
- Require its tendered contractors to adopt a whistle-blowing policy which enables their staff to blow the whistle on any suspected examples of modern slavery.
- Review its contractual spending regularly to identify any potential issues with modern slavery.

- Highlight for its suppliers any risks identified concerning modern slavery and refer them to the relevant agencies to be addressed.
- Refer for investigation via the National Crime Agency's national referral mechanism any of its contractors identified as a cause for concern regarding modern slavery.
- Report publicly on the implementation of this policy annually.

Findings

Broxbourne Council does not have a specific Corporate Procurement Team. However, a number of officers with procurement responsibilities have all been trained in line with Herts County Council guidelines and have attended the Hertfordshire Constabulary training held at the Borough Offices in May 2018.

Modern Slavery forms part of the mandatory Safeguarding training and highlights how to identify and report cases of Modern Slavery. Additional training through the Chartered Institute of Procurement and Supply's (CIPS) online course on Ethical Procurement and Supply is not considered to be required at this time but will be given consideration in future.

Broxbourne Council does not employ or use contractors that are covered by the Co-operative Party's Charter, for example, care homes, large scale cleaning contractors, although the Council ensures that its contractors comply with the Modern Slavery Act.

All procurement carried out by the Council follows the framework set out in Contract Standing Orders. Consideration will be given to adding a section within Contract Standing Orders relating to Modern Slavery.

The Council has for a number of years operated a Whistleblowing policy and although this does not specifically cover Modern Slavery, employees and contractors are encouraged, where possible, to report concerns. Consideration will be given to adding a section within this policy relating to Modern Slavery.

Reports and concerns of modern slavery cases, both of employees, contractors and residents are already made to the Hertfordshire Constabulary Operation Tropic team, who are responsible for investigation into such issues. This is the advice given by the Constabulary and it is recommended that the Council continues to report this way.

Financial, Legal and Risk Management Implications

There are no specific risks arising from the recommendation.

Alternative Options Considered

There are no alternative options to be considered.

Equalities Implications

There are no direct equalities implications arising from the recommendation.

Contribution to the Council's Objectives

Be transparent and ensure effective scrutiny and risk management.

Scrutiny Committee Comments and/or Recommendations

The Committee recommended to the Cabinet that officers be requested to provide a further report providing an overview of the changes and improvements which could be made to Broxbourne's policies and procedures to deal with the issues relating to modern slavery.

Summary

The Council is committed to helping prevent and identify instances of modern slavery. The Council undertakes training and requires its contracts to comply with the Modern Slavery Act 2015 and mechanisms are in place to allow for the reporting of incidents. Cabinet therefore needs to consider whether adoption of the Co-operative Party's Charter against modern slavery would bring added benefits.

Contact Officer:
Mrs R Keene (Ext. 5871)
Mrs N Pearce (Ext. 5828)

List of Background Papers:
None.

8. CAPITAL STRATEGY

Director of Finance on behalf of the Cabinet Members for Finance

RECOMMENDED that:

(a) the Capital Strategy be agreed and referred to the Council for approval; and

(b) the Prudential Indicators for 2019/20 to 2021/22 be referred to the Council for approval as part of the budget setting process.

Purpose

To agree and recommend the Capital Strategy and the Prudential Indicators to the Council for approval.

For members' information, the Capital Strategy is circulated separately.

Introduction

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) requires that councils prepare a Capital Strategy for each financial year. The Strategy has to be approved by the Council in advance of the start of the financial year to which it relates.

The Strategy

The Capital Strategy is a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.

It details the process for setting the Capital Programme and how this will be financed. It also demonstrates how the Council's Treasury Management Strategy, Investment Strategy and Asset Management Strategy all provide a framework within which the Capital Programme is formulated and funded.

The Strategy also sets out the Council's borrowing strategy and, as part of the Prudential Indicators, recommends an affordable limit for prudential borrowing.

The Strategy also incorporates the Prudential Indicators for 2019/20 to 2021/22 which must be approved by the Council as part of the annual budget setting process. These indicators provide assurance that the Council's capital expenditure plans are affordable and proportionate.

Financial, Legal and Risk Management Implications

Under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code.

The strategy and the Prudential Indicators must be approved by the Council in advance of the start of the financial year.

Equalities Implications

There are no equalities implications arising from this report.

Alternative Options Considered

The Council could chose to not have a Capital Programme and therefore, have no need for a Capital Strategy. However, this would result in the Council's assets becoming unfit for purpose reducing their income generating potential and putting the Council's revenue budgets at risk. It would also result in the Council's non-incoming generating assets becoming obsolete and no longer fit for purpose, putting service delivery at risk.

Contribution to the Council's Objectives

The Council's Capital Strategy contributes to all the Council's Objectives.

Scrutiny Committee Comments and/or Recommendations

The Committee made no recommendations to the Cabinet.

Conclusion

The capital strategy and the prudential indicators be agreed and referred to the Council for approval.

Contact Officer:	List of Background Papers:
Mrs R Keene (Ext 5871)	CIPFA Prudential Code for Capital Finance in Local Authorities

9. 2019/20 TO 2022/23 CAPITAL PROGRAMME — **Director of Finance on behalf of the Cabinet Members for Finance**

RECOMMENDED that:

(a) the resources available to fund capital expenditure be noted;

(b) the capital programme for 2019/20 be recommended to the Council for approval;

(c) the indicative capital programme for 2020/21 to 2022/23 be noted;

(d) the Director of Finance be given delegated authority to establish a budget to deliver any individual capital projects for which full external funding may be received;

(e) a Commercial Opportunities Investment Panel is established as a trial for up to 12 months; and

(f) approval for the drawdown of funds from the Investment Opportunities budget allocation be delegated to the Chief Executive in association with the Commercial Opportunities Investment panel.

Purpose

To present the proposed 2019/20 capital programme and the resources available to fund the programme.

For Members' information appendices A and B relate to this report.

Introduction

The Council's capital programme sets out the projects to which capital resources are to be allocated in the following financial year.

Capital expenditure is defined as 'expenditure on the acquisition, creation or enhancement of an asset, providing that it will yield benefits to the Council and the services it provides for more than one year.' It specifically excludes expenditure on repairs and maintenance.

The Council's capital programme should support the corporate objectives and be set in the context of the previous commitment to concentrate on income generating schemes.

Available Resources

The resources available to fund capital expenditure come from a variety of sources (including capital receipts reserves, grants and revenue contributions). Some are ring-fenced which means they can only be used to fund certain types of expenditure or for specific projects, whilst others do not have such restrictions.

The following table details the different types of resources available to fund the capital programme together with any restrictions on their use and the projected amount available for 2019/20.

Funding source	Description	Projected amount available for 2019/20 £000
Capital receipts reserve	Main reserve for capital resources – not ring-fenced. This included the money from the LSVT transfer. The reserve is replenished by receipts from preserved right to buy sales and the receipts from any pieces of land or properties which are sold.	7,210
Broxbourne Sport and Broxbourne Leisure and Culture reserve	Primarily used to fund equipment replacement programme at leisure facilities. The reserve is replenished by any surplus generated by either service each financial year.	600
Environmental Services reserve	Ring-fenced to fund major projects directly affecting Environmental Services. The reserve is replenished from any in-year underspends within Environmental Services.	298
Capital and Building Works reserve	Ring-fenced to finance capital works to the Council's buildings.	3,200
Capital grants reserve	Grants that have been received to be used for capital projects. Includes the capital element of the planning delivery grant.	879
Brookfield reserve	Ring-fenced to fund the future relocation of the Council's depot and allotments.	3,000
Park Lane footbridge reserve	Ring-fenced to fund the construction of a footbridge over the railway at Park Lane.	318
	Total Capital Reserves (projected for 19/20)	**15,505**
Budgeted revenue contribution	An amount set aside in the revenue budgets to be used to fund capital expenditure. It includes (but is not restricted to): income from Fawkon Walk, income from PV panels, interest from treasury investments and New Homes Bonus – it is not funded by Council Tax.	2,010
	Total Capital Resources (projected for 19/20)	**17,515**

The decision was taken by Council during the 2016/17 budget process to ensure that capital reserves do not fall below £5 million. This, along with the fact that the Brookfield and Park Lane footbridge reserves are ring-fenced for specific schemes, means that the capital reserves in the above table cannot be fully utilised, therefore bringing the available resources down to **£9.2 million**.

A detailed schedule showing the types of resource and levels of in-year contributions can be found in Appendix A.

Section 106 Funding

In addition to the resources detailed above, there are also section 106 (S106) monies available to fund capital expenditure. There are restrictions on the projects this can be used for, and all new S106 agreements have to be project specific. However, it is projected that there will be £6.4 million in S106 monies available to fund projects which could be defined as supporting the community plan in 2019/20.

Prudential Borrowing Requirements

To date the prudential borrowing taken out has been used exclusively to fund investments in commercial property. However, over the coming years, the Council's aspirations for its capital programme are greater than the reserves it has available. Therefore, the Council needs to be able to access additional capital resources to fund its capital programme.

The draft 2019/20 to 2022/23 capital programme includes a number of income generating projects which will help safeguard future revenue budgets and future capital programmes as well as supporting some of the Council's strategic objectives. It is proposed that the most viable funding option for these projects is prudential borrowing.

In addition to the capital programme, the Council also requires the ability to access funding in the event of commercial investment opportunities arising, which can support increased income generation. This includes the ability to pursue strategic acquisitions in the Borough, which have already been identified, that will support the Council's corporate objectives including its economic development aspirations. Also, the Council may decide to increase its role in delivering social and affordable housing within the Borough and in order to do this it will need access to funding to support the acquisition and development of residential properties.

Capital Investment and Revenue Implications

When setting the programme, the impact that proposed projects will have on the Council's revenue budgets needs to be recognised. This impact may be positive or negative. For example, investment in commercial property and in loans to Badger BC Investments Ltd, generate revenue income streams which can be used to support services or reinvested in future capital programmes. Conversely, upgrading or installing new facilities may result in increased ongoing operating, repairs and maintenance costs in the relevant service area.

Therefore, it is important that decisions about which projects to include or exclude from the programme are made in the context of the ongoing revenue impact.

Having the flexibility to undertake income generating capital projects and make considered commercial investments is critical because the latest financial projections indicate that the Council will face a budget gap in the region of £1.2m over the next five years. In order to ensure that balanced budgets can be set over this period, the Council needs to continue to identify and generate additional income streams. Other income generating opportunities, outside of capital investment, are being explored but they are unlikely to generate the level of income required. In the absence of additional income, the Council will need to start to identify a programme of savings which will enable this gap to be closed.

2018/19 Capital Programme

The 2018/19 capital programme has a value of £41.5 million (of which £22.7m relates to expenditure which has been funded from external borrowing). An exercise is currently being undertaken to project the outturn position. Where budgets are projected to be not fully utilised by the end of the financial year, the surplus funds will either be returned to available capital resources or a request made to carry forward some, or all, of the unspent element via a re-profiling of the budget. Requests to re-profile budgets will be considered and approved by the Director of Finance.

Proposed 2019/20 Proposed Programme

Appendix B lists the projects which have been put forward for inclusion in the 2019/20 programme. These have been subject to officer review to ensure that the proposed projects are capital in nature and are in line with corporate objectives.

A total of 23 bids are included in the listing in Appendix B. These bids have a total value in 2019/20 of £50.3 million. It has been identified that £1.7 million of this should be funded from S106 receipts (these projects are separately identified in the appendix), leaving £48.6 million to be funded from capital resources.

One Off Projects and Rolling Programme

These proposed projects are all required to support service delivery, either through the acquisition of new assets of through the enhancement of existing ones. The rolling programme schemes are those which are undertaken each year so that lower value assets with shorter lives can be replaced in a timely fashion to ensure that they continue to support service delivery (e.g. IT and fleet and plant equipment) or income generation (e.g Broxbourne Sport equipment replacement).

It is proposed that these projects will be funded from the Council's own capital resources.

Transformation

A significant amount of investment is required in order to support the future operating model of the Council which will emerge as a result of the Transformation Programme. This investment includes a new customer engagement hub (both face-to-face and a telephone call centre), the Council website, telephone systems and other systems which will support staff in new ways of working.

Income Generating Projects

Four bids have been included for projects that will, once completed, generate additional revenue income for the Council which could be used to support services or to fund future capital schemes. Investing in these projects will help to safeguard revenue budgets.

All these projects support the Council's corporate objectives including delivering affordable homes for local people and other economic development aspirations.

Investment Opportunities

In addition to the specified projects detailed in the proposed capital programme, the Council also requires the ability to access funding in the event of commercial investment opportunities arising, which can support increased income generation. This includes the ability to pursue strategic acquisitions in the Borough, which have already been identified, that will support the Council's regeneration and economic development aspirations.

To this end it is proposed to include in the capital programme an allocation of £30 million to be used for investment opportunities, funded from prudential borrowing. An indicative split between strategic land acquisitions within the Borough and other property acquisitions is shown in Appendix B.

In order to help ensure that any investments made are in the Council's best interests, it is proposed that a new Member panel be formed to consider proposed investment opportunities and that approval to drawdown on the investment opportunity allocation be delegated to the Chief Executive in consultation with this panel.

Ad-hoc Fully Funded Projects

During the course of the financial year, there are occasions when funding from an external source becomes available to carry out a project which is not included in the capital programme. It is proposed that, when such an opportunity arises and it has been evidenced that the cost of the project will be fully funded by the external support, approval to carry out the project be delegated to the Director of Finance. This is consistent with the Cabinet's resolution in June 2016 relating to s106 Agreements.

Financial, Legal and Risk Management Implications

Any financial, legal and risk management implications are set out in the report.

Equalities Implications

Any changes to services as a result of the schemes within the proposed capital programme will be subject to separate reports and any equalities implications will be considered as part of this process.

Contribution to the Council's Objectives

The Capital Programme supports all of the Council's objectives.

Scrutiny Committee Comments and/or Recommendations

The Committee recommended to the Cabinet that reference to a trial be removed and that the effectiveness of the Panel be reviewed after 12 months of operation.

Conclusion

A capital programme of £50.3 million is proposed for the 2019/20 financial year. This is proposed to be used to fund projects which either support the Council's corporate priorities and services or help extend the useful life of its assets.

In the context of the available capital resources and the level of revenue contribution forecast, it is considered that the proposed capital programme and the level of borrowing required to fund it is affordable.

Contact Officer:	List of Background Papers:
Mrs R Keene (Ext 5871)	Capital Programme working papers

APPENDIX A

	Actual 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
CAPITAL EXPENDITURE						
To be funded by Capital Resources	4,665	15,194	4,912	3,000	3,000	3,000
To be funded by External Borrowing	18,261	22,700	43,700	12,000	12,000	12,000
To be funded by s106	95	3,652	1,700	1,000	1,000	1,000
TOTAL CAPITAL EXPENDITURE	**23,021**	**41,546**	**50,312**	**16,000**	**16,000**	**16,000**
CAPITAL RESOURCES						
Opening Balances						
Capital Receipts Reserve	15,838	15,362	6,710	6,558	7,065	7,520
Earmarked Capital Reserves (SO and Capital and Building Works)	4,466	4,256	3,536	3,823	3,260	2,805
Earmarked Reserve - Park Lane Footbridge	-	468	318	318	318	318
Earmarked Reserve - Brookfield	-	2,000	3,000	3,000	3,000	3,000
Capital Grants	764	968	879	879	879	879
TOTAL RESOURCES AT START OF FINANCIAL YEAR	**21,068**	**23,054**	**14,443**	**14,578**	**14,522**	**14,522**
In Year Contributions						
Capital Receipts	1,517	3,030	556	563	575	586
Contribution (from)/to Earmarked Capital Reserves	(112)	211	562	150	150	150
Contribution (from)/to Earmarked Reserve - Park Lane Footbridge	-	-	-	-	-	-
Contribution (from)/to Earmarked Reserve - Brookfield	-	-	-	-	-	-
Capital Grants	477	-	1,919	-	-	-
Revenue Contributions	2,398	3,342	2,022	1,500	1,500	1,500
TOTAL CAPITAL RESOURCES TO FUND CAPITAL EXPENDITURE	**25,348**	**29,637**	**19,502**	**16,791**	**16,747**	**16,758**
Funding of Capital Expenditure (inc establishing earmarked reserves)						
Capital Receipts	(1,993)	(11,682)	(708)	(56)	(120)	(120)
Earmarked Capital Reserves	(98)	(931)	(275)	(713)	(605)	(616)
Earmarked Reserve - Park Lane Footbridge	468	(150)	-	-	-	-
Earmarked Reserve - Brookfield	2,000	1,000	-	-	-	-
Capital Grants	(273)	(89)	(1,919)	-	-	-
Revenue Contributions	(4,301)	(3,342)	(2,010)	(2,231)	(2,275)	(2,264)
TOTAL INTERNAL FUNDING OF CAPITAL EXPENDITURE	**(4,197)**	**(15,194)**	**(4,912)**	**(3,000)**	**(3,000)**	**(3,000)**
EXTERNAL BORROWING	(18,261)	(22,700)	(43,700)	(12,000)	(12,000)	(12,000)
TOTAL FUNDING OF CAPITAL EXPENDITURE	**(22,458)**	**(37,894)**	**(48,612)**	**(15,000)**	**(15,000)**	**(15,000)**
	468	-	-	-	-	-
Closing Balances						
Capital Receipts Reserve	15,362	6,710	6,558	7,065	7,520	7,986
Earmarked Capital Reserves (SO and Capital and Building Works)	4,256	3,536	3,823	3,260	2,805	2,339
Earmarked Reserve - Park Lane Footbridge	468	318	318	318	318	318
Earmarked Reserve - Brookfield	2,000	3,000	3,000	3,000	3,000	3,000
Capital Grants	968	879	879	879	879	879
TOTAL CAPITAL RESOURCES AT END OF FINANCIAL YEAR	**23,054**	**14,443**	**14,578**	**14,522**	**14,522**	**14,522**
Less: Approved Minimum Level of Reserves	*(5,000)*	*(5,000)*	*(5,000)*	*(5,000)*	*(5,000)*	*(5,000)*
Less: Earmarked Reserves (Park Lane and Brookfield)	*(2,468)*	*(3,318)*	*(3,318)*	*(3,318)*	*(3,318)*	*(3,318)*
TOTAL CAPITAL RESOURCES FOR USE AT END OF FINANCIAL YEAR	**15,586**	**6,125**	**6,260**	**6,204**	**6,204**	**6,204**
S106 RESOURCES						
Opening Balances						
Ringfenced S106	2,788	2,462	1,269	1,769	1,869	2,069
General Use S106	5,317	7,075	6,399	5,899	5,649	5,399
TOTAL S106 RESOURCES	**8,105**	**9,537**	**7,668**	**7,668**	**7,518**	**7,468**
In Year Contributions						
Ringfenced S106	142	1,120	500	600	700	1,500
General Use S106	1,853	382	1,200	250	250	250
TOTAL S106 RESOURCES TO FUND EXPENDITURE	**10,100**	**11,039**	**9,368**	**8,518**	**8,468**	**9,218**
Funding of Capital Expenditure						
Ringfenced S106	(468)	(2,313)	-	(500)	(500)	(500)
General Use S106	(95)	(1,058)	(1,700)	(500)	(500)	(500)
TOTAL S106 FUNDING OF CAPITAL EXPENDITURE	**(563)**	**(3,371)**	**(1,700)**	**(1,000)**	**(1,000)**	**(1,000)**
Closing Balances						
Ringfenced S106	2,462	1,269	1,769	1,869	2,069	3,069
General Use S106	7,075	6,399	5,899	5,649	5,399	5,149
TOTAL S106 RESOURCES	**9,537**	**7,668**	**7,668**	**7,518**	**7,468**	**8,218**

Project Title	Project Costs Capital Costs (£) 2019/20	2020/21	2021/22	2022/23	Value of external funding identified	Project Description
ONE OFF BIDS - to be funded from Council resources						
Transformation - IT	3,461,000	0	0	0		A significant amount of investment is required to support the future operating model of the Council. This includes a new customer engagement hub (face to face and telephone call centre) (£1,195k), investment in software (£896k), the creation and integration of a new digital platform (including the website and self-service capabilities) (£1,285k) and investment in new hardware (£85k).
Personnel Software	200,000	0	0	0		A new personnel software system is required as the existing system is no longer supported by the developer and is no longer fit for purpose.
Allotments	150,000	0	0	0		Funding for the creation of allotments to allow the allotments at Half Hide Lane to be relocated for the Brookfield Development.
Upgrade of e5 Finance System	55,000	0	0	0		Funding for an upgrade to the Council's finance system. The current version will become unsupported during the next financial year and therefore, an upgrade is necessary.
Bishops College - 5 Year Fixed Electrical wiring	14,400	0	0	0		Under current Health & Safety legislation the fixed electrical wiring needs to be fully tested every 5 years. The last inspection took place in June 2014 and will need to be renewed in 2019. There are over 700 circuits on site that need to be tested.
TOTAL ONE OFF BIDS	**3,880,400**	**0**	**0**	**0**		
ROLLING PROGRAMME BIDS - to be funded from Council resources						
IT - Technology Refresh (Hardware)	150,000	150,000	150,000	150,000		Replacement of IT Hardware such as PCs, Laptops, Servers and Multi-Functional Devices.
Broxbourne Sport and Broxbourne Leisure and Culture equipment replacement	150,000	150,000	150,000	150,000		The proposed budget for 2019/20 will be used for items such as gym equipment at both sports centres (£100k), golf buggies at CPGC (£10k) and a combi oven at the Spotlight (£10k).

Project Title	Project Costs Capital Costs (£) 2019/20	2020/21	2021/22	2022/23	Value of external funding identified	Project Description
Fleet and Plant replacements – Environmental Services	100,000	100,000	100,000	100,000		Funding to replace vehicles and plant items that have reached the end of their economic life as part of the fleet replacement programme.
Environmental Services Equipment	85,000	85,000	85,000	85,000		To ensure sufficient stock is available for service continuity and ensure Recycling Points and parks and highway litter bins remain in good order. 1. Purchase new recycling banks/bins to replace old and damaged banks/bins at Recycling Points plus other site improvement works as required. 2. Purchase commercial waste euro bins for new trade waste customers, or to replace bins that have been lost or damaged. 3. Purchase wheeled bins (as required) for new residents or to replace bins that have been lost, stolen or broken. 4. On-going replacement of existing litter bin stock with highway and parks and open spaces locations.
Contingency	100,000	100,000	100,000	100,000		
TOTAL ROLLING PROGRAMME BIDS	**585,000**	**585,000**	**585,000**	**585,000**		

PROJECTS ATTRACTING GRANT FUNDING OR OTHER CONTRIBUTIONS - to be initially funded from capital resources

Project Title	2019/20	2020/21	2021/22	2022/23	Value of external funding identified	Project Description
Roof replacement and concrete repairs -74-88 High Street, Cheshunt	208,000	0	0	0	Part funded by receipt of additional service charges - c.£145,600 (70%)	Replacement of roof and renewal of defective concrete at 74-88 High Street. The amount recoverable would be in the region of 70% of the expenditure.
Holdbrook Court external redecorations and repairs	142,000	0	0	0	Part funded by receipt of additional service charges - c.£99,400 (70%)	To carry out external works to both residential and commercial parts of Holdbrook Courts. The leases of both residential and commercial tenants allow the council to recover some of the costs by adhering to the Section 20 procedure. The amount recoverable would be in the region of 70% of the expenditure.
Replacement & renewal of Walkway – Newnham Parade, Cheshunt	97,000	0	0	0	Part funded by receipt of additional service charges - c.£67,900 (70%)	Replacement of defective asphalt covering to walkway to flats (roofs of shops below) To renew walkway to make building weather tight . The leases of both residential and commercial tenants allow the council to recover some of the costs by adhering to the Section 20 procedure. The amount recoverable would be in the region of 70% of the expenditure.
TOTAL FUNDED/PART FUNDED BIDS	**447,000**	**0**	**0**	**0**		

Project Title	Project Costs Capital Costs (£) 2019/20	2020/21	2021/22	2022/23	Value of external funding identified	Project Description
INCOME GENERATING PROJECTS - to be funded from borrowing						
Hoddesdon Police Station Development	2,000,000	2,000,000	2,000,000	0		A joint venture with the police to redevelop Hoddesdon police station.
Bishops College New River Site	1,200,000	5,000,000	5,000,000	0	£1,060,000 A grant funding application has been successfully made, however drawdown of grant can only be made when expenditure has been outlayed.	To design, procure build and sell a residential development of around 50 units on the land east of the New River in the Bishops College complex. The land is currently a vacant open space and is within the Council's draft Local plan to provide housing towards the target of 7,700 homes up to 2030.
Loans to Badger BCI Ltd	10,000,000	5,000,000	5,000,000	5,000,000		Additional allocation of funding for loans to Badger BCI Ltd to allow the purchase of properties (including from B3 Living) and other development opportunities.
Brookfield	500,000	0	0	0		Additional funds to complete legal agreements in relation to Brookfield Riverside and to support initial stages of the Garden Village element of the proposed schemes.
TOTAL INCOME GENERATING BIDS	**13,700,000**	**12,000,000**	**12,000,000**	**5,000,000**		
INVESTMENT OPPORTUNITIES - to be funded from borrowing approved by the Commercial Opportunities Investment Panel						
Strategic Land Acquisitions in the Borough	5,000,000					
Other Property Acquisitions	25,000,000					
TOTAL INVESTMENT PANEL BIDS	**30,000,000**	**0**	**0**	**0**		
TOTAL BIDS	**48,612,400**	**12,585,000**	**12,585,000**	**5,585,000**		

Project Title	Project Costs Capital Costs (£) 2019/20	 2020/21	 2021/22	 2022/23	Value of external funding identified	Project Description
PROJECTS APPROVED IN PRINCIPLE BUT DEPENDENT ON AVAILABILITY OF S106 FUNDING						
Play Areas	60,000	110,000	60,000	200,000	s106	2019/20 - Play area upgrade of Goffs Lane and instillation of Gyro-spiral replacement item. 2020/21 - Upgrade to skate park facilities at Pound Close/WX Playing Field from laminate to concrete ramps. Upgrade toddler provision/junior play at Fishers Close and Holdbrook old school site. 2021/22 - Play area upgrade, Barclay Park, Kings Rd. 2022/23 - Play area upgrade, consider creation of splash park facility Grundy Park.
Highways	40,000	40,000	40,000	40,000	s106	Ad-hoc improvement schemes aimed at improving the appearance of the highway and increasing efficiency of services. For example: installing double kerbs, or verge/road access widening schemes to assist refuse and recycling collections access. Other schemes include the installation of dropped kerbs in and near town centres, schools and near transport hubs to assist the disabled.
New River Path	100,000	0	0	0	s106	Further works to improve sections of the New River Path.
Hoddesdon Town Centre Improvements	1,500,000	0	0	0	s106	Reliant on High Leighs s106 contributions.
TOTAL BIDS TO BE FUNDED FROM S106	**1,700,000**	**150,000**	**100,000**	**240,000**		

10. OVERALL REVENUE ESTIMATES, FEES AND CHARGES AND COUNCIL TAX SETTING 2019/20 — **Director of Finance on behalf of the Cabinet Members for Finance**

This report has been circulated separately.

11. TREASURY MANAGEMENT STRATEGY 2019/20 — **Director of Finance on behalf of the Cabinet Members for Finance**

RECOMMENDED that:

(a) the Treasury Management Strategy be considered and referred to Council for approval; and

(b) the performance of the treasury function for the period to 31 December 2018 be noted.

Purpose

To receive and recommend the following for the approval of Council,

- the treasury management strategy statement for 2019/20 which incorporates the minimum revenue provision statement for 2019/20; and
- the treasury management indicators for the period 2019/20 to 2021/22;

and to report on the performance of the treasury function for the period 1 April 2018 to 31 December 2018.

For members' information, Appendices 'C' and 'D' relate to this item.

Introduction

Treasury management is the administration of the Council's cash flows including borrowing and cash investments. Non-financial assets held primarily to generate income and loans made form part of a separate document, the Investment Strategy. The Investment Strategy was approved by the Cabinet in December 2018.

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) requires the Council to approve a treasury management strategy before the start of each financial year. The full strategy is presented at *Appendix A* of this report. The performance of the treasury function in the financial year to date is presented in *Appendix B*.

Treasury Management Strategy 2019/20

The strategy has been set in line with the forecast for interest rates and the Council's proposed capital expenditure. It supports the Council's primary objectives to protect the principal sums invested from loss and to ensure adequate liquidity so that funds are available to cover expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary objective. The 2019/20 strategy proposes that counterparties with a long-term rating of less than “A-“ should no longer be authorised to receive deposits. This alteration formalises the Council’s current practice of not investing with institutions rated at BBB+ or below. The report updates the economic picture including the forecast for interest rates and the counterparty credit outlook.

The strategy confirms that investments made in the short-term will be driven by cash flow demands. The diversity of the portfolio will be maintained by deposits with a range of banks, buildings societies, other local authorities and through the money market funds accounts. The returns available from longer-term cash investments (those in excess of one year’s duration) have not improved such that they present a realistic alternative to the yields achievable from non-cash investments. Therefore, the Investment Strategy approved by Cabinet in December 2018 will be the basis of securing higher yielding long-long terms returns to support the provision of Council services.

The proposed treasury management strategy for 2019/20 is included in full at *Appendix A*.

Treasury Performance 2018/19 to 31 December 2018

An average rate of return on investments of 0.72% was achieved in the financial year to the end of December 2018. During this period the average investment portfolio was £48.1 million. Investment income of £260,142.30 was earned in this period and is projected to stand at £300,000 compared to the budgeted figure of £235,000 by the end of the financial year. The difference is explained by higher investment balances than forecast and earlier Bank Rate increases than were predicted. There have been changes to the approved lending list since the mid-year report to Cabinet in December. On the advice of Arlingclose, the Council’s treasury advisors, a number of European banks have been removed from the authorised counterparty list whilst the maximum duration has been reduced for others. The maximum duration of loans to other Local Authorities has now been reduced to two years. The full treasury performance report is included at Appendix B.

Contribution to the Council’s Objectives

The treasury function supports the Council’s objectives by protecting the principal sums invested from loss and ensuring adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the Council’s capital programme is also an important objective.

Financial, Legal and Risk Management Implications

Both the treasury management strategy and the setting of the treasury management indicators ensure that the Council complies with statutory requirements.

The Council is exposed to financial risks including the loss of invested funds and the impact of changing interest rates. This is mitigated by ensuring the authorised counterparty list and limits reflect a prudent approach to borrowing institutions. The

Council manages its exposure to fluctuations in the interest rates with a view to securing its interest revenues in accordance with its budgetary requirements. The Council's arrangements relating to specific risks are detailed in the Treasury Management Policy Statement and Practices document. The investment strategy outlined in this recommendation will be implemented within this framework.

Alternative Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Strategy set out in this document represents an appropriate balance between risk management and cost effectiveness. The Council's strategic objectives comply with the CIPFA Code which specifies that security of investments and liquidity considerations should be prioritised above yield.

The Council could elect to invest in a narrower range of counterparties and/or for shorter durations. However, this would result in a reduction in investment income. Potentially this may also reduce the risk of default losses but a reduction in diversification will increase exposure to any single institution. Alternatively it is open to the Council to invest in a wider range of counterparties and/or for longer periods of time. This would increase investment income but with an enhanced risk of default. There is an option to refinance borrowing over longer-term at fixed interest rates. This would increase debt interest costs but render such costs more certain.

Equalities Implications

There are no equality implications arising from this report.

Scrutiny Committee Comments and/or Recommendations

The Committee made no recommendations to the Cabinet.

Conclusion

The treasury management strategy sets out the framework by which the treasury function will operate to achieve the Council's investment objectives.

Contact Officer
Mr C Wybrew, (Ext 5516)

List of Background Papers:
Relevant files held in the Finance Department.
Investment records.
Arlingclose Interest Rate Forecast Nov / Dec 2018.

TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

The sections below define aspects of the Council's investment strategy as required by the CIPFA Code.

1) Context for the 2019/20 Strategy

(a) The Economic Outlook

Arlingclose Ltd, the Council's treasury advisors, consider that the most probable course for interest rates is for Bank Rate to rise twice in 2019, after the UK exits the EU, stabilising at 1.25% through to the end of the forecast period in December 2021.

(b) The Local Context

The Council's investment portfolio as at 31 December 2018 is as follows:

	31/3/18 Balance £m	Movement £m	31/12/18 Balance £m	31/12/18 Rate %
Long-term borrowing	0	0	0	0
Short-term borrowing	18.25	21.30	39.55	0.80% - 1.05%
Total borrowing	**18.25**	**21.30**	**39.55**	
Long-term investments	2.00	0	2.00	2.40%
Short-term investments	25.50	11.00	36.50	0.68% - 0.99%
Cash and cash equivalents	13.50	(5.50)	8.00	0.65% - 0.69%
Total investments	**41.00**	**5.50**	**46.50**	**-**
Net (borrowing/investments)	**22.75**	**-**	**6.95**	**-**

The Council currently has £46.5 million of investments. However, this will continue to reduce as the Council's agreed capital programme is delivered. Capital expenditure and usable reserves will dictate the Council's borrowing requirement and investment strategy.

(c) Credit Outlook

The main four UK banking groups have divided their retail and investment banking divisions into separate legal entities under the 'ringfencing' legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the 'ringfenced' banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the 'ringfenced' banks generally better rated than their 'non-ringfenced' counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed.

(d) Implications for the Investment and Borrowing Strategy

The Council will ensure sufficient liquidity for day to day operations through Money Market Fund (MMF) and deposit accounts. These accounts offer same day access and sufficient balances will be maintained to ensure that cash flow demands can be satisfied. The Council holds no overdraft agreement which underlines the importance of maintaining an adequate cash flow buffer.

That element of balances that are required in the short-term to meet capital expenditure requirements but not for immediate cash flow will be diversified over a range of UK banks, buildings societies, overseas banks and with other local authorities in accordance with the list of approved counterparties. The Council's approach to longer-term investments is detailed in the separate Investment Strategy 2019/20 which addresses non-cash investments.

The Council holds a debt portfolio of £39.55 million. These loans have been taken over the short-term to afford maximum flexibility to the Council in terms of repayment of the principal and as a cheaper form of borrowing. These loans will need to be refinanced over the financial year. The Council's borrowing strategy is to refinance the loans each year at a variable rate. This will retain flexibility and secure lower interest rates. The detailed considerations in terms of borrowing and investments are given in the following sections.

2) Borrowing Strategy

The Council currently holds £39.55 million of loans, an increase of £21.3 million on the previous year. The Capital Strategy for 2019/20 sets out the affordable borrowing limit and operational boundary. In addition to this a maximum limit "short-term" borrowing limit of £7 million is sought as an emergency cash flow facility.

(a) Borrowing Objectives

The Council's chief objective when borrowing money will be 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. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

(b) Strategy

Despite the Bank Rate increase in August 2018 short-term borrowing market interest rates still represent value against higher longer-term lending rates through the Public Works Loan Board (PWLB). This position is unlikely to change in the event of further increases to the Bank Rate. Therefore, it is likely to be more cost effective to borrow over the short-term instead. The Council has the facility to borrow over the longer-term through the PWLB if this proves the more cost effective.

In addition, the Council may borrow on a short-term basis to cover unplanned cash flow shortages.

(c) Borrowing Sources

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 (see 3b below).
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds.
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases.
- Leasing.
- Hire purchase.
- Private Finance Initiative.
- Sale and leaseback.

Short-term and variable rate loans leave the Council open to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

3) Treasury Investment Strategy

(a) Investment Objectives

The Council holds invested funds which represent income received in advance of expenditure plus balances and reserves. In the 2018/19 financial year, the Council's investment balance has varied between £41 million and £54 million. The Council is required to produce an annual investment strategy that sets out its policies for managing its investments and for giving priority to the security and liquidity of those investments before seeking the optimum rate of return. 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.

(c) Negative Interest Rates

If the UK enters into a recession in 2019/20, 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.

(d) Approved Investment Counterparties

The Council may invest its surplus funds with any of the counterparty types in the following table subject to the cash and time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
AAA	£3M 5 years	£5M 20 years	£3M 50 years	£3M 20 years	£3M 20 years
AA+	£3M 5 years	£5M 10 years	£3M 25 years	£3M 10 years	£3M 10 years
AA	£3M 4 years	£5M 5 years	£3M 15 years	£3M 5 years	£3M 10 years
AA-	£3M 3 years	£5M 4 years	£3M 10 years	£3M 4 years	£3M 10 years
A+	£3M 2 years	£5M 3 years	£3M 5 years	£3M 3 years	£3M 5 years
A	£3M 13 months	£5M 2 years	£3M 5 years	£3M 2 years	£3M 5 years
A-	£3M 6 months	£5M 13 months	£3M 5 years	£3M 13 months	£3M 5 years
None	£1M 6 months	n/a	£3M 25 years	n/a	£3M 5 years
Pooled Funds	£5M per fund				

This table should be read in conjunction with the notes below:-

(e) Credit Rating

Investment limits are made by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, the Council will consider all relevant factors when making investment decisions.

(f) Banks Unsecured

Included within this category are 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.

(g) Banks Secured

Secured investments are covered bonds, reverse repurchase agreements (a fixed term loan secured on assets) 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 highest 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.

(h) Government

Investments within this category are comprised of loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is a very low risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

(i) Corporates

Corporate loans, bonds and commercial paper are 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 becoming insolvent.

(j) Registered Providers

This investment class respects loans and bonds issued by, guaranteed by or secured on the assets of providers of social housing and registered social landlords. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

(k) Pooled Funds

Such Funds are comprised of shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value 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.

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. As 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.

(l) Lloyds Bank

In terms of day to day operational practice, as an exception to the above criteria, the unsecured deposit limit stands at £4 million for Lloyds Bank plc, the business account provider to the Council. This will permit the Council to keep funds on deposit with Lloyds Bank when it is not operationally possible or not cost effective to place the funds elsewhere. Lloyds are currently rated the equivalent of "AA-" by Moodys and "A+" by the FITCH and Standard & Poors agencies.

As a contingency it may be necessary to run balances in the Lloyds business account which put the Council over the total £4 million counterparty limit. It is envisaged that if this was necessary then it would be on an overnight basis in order to ensure that there is sufficient liquidity to complete a purchase transaction. The contingency will be avoided where possible by the placement of funds overnight within the agreed counterparty limits. Funds will only be held with Lloyds as part of this contingency on the express agreement of the Section 151 Officer.

(m) Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes to 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.

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.

(n) 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, reports in the quality financial press and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, 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.

(o) Investment Limits

To reduce the Council's exposure in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as in the following table:

	Cash limit
Any group of UK based organisations under the same ownership	£5 million per group
Any group of non-UK based organisations under the same ownership	£3 million per group
Any group of pooled funds under the same management	£5 million per manager
Negotiable instruments held in a broker's nominee account	£20 million per broker
Foreign countries	£6 million per country
Registered providers and registered social landlords	£10 million in total
Money Market Funds	£30 million in total
Loans to other organisations	£5 million in total

(p) Liquidity Management

The Council performs regular cash flow forecast calculations 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 strategy and cash flow forecast.

(q) Financial Implications

According to current cash flow forecasts, investments are expected to reduce to approximately £37 million by 31 March 2019, £34 million by 31 March 2020 and £31 million by 31 March 2021 as a result of capital expenditure. The budget for investment income in 2019/20 is £335,000 at an interest rate of 1.18%. The budget for debt interest paid in 2019/20 is £514,000 based on an average debt portfolio of £39.55 million. If actual levels of investment and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

(r) Related Matters

The CIPFA Code also requires the Council to approve the following matters each year as part of the investment strategy:

- Financial Derivatives
  A derivative is a contract between two parties that specifies conditions (such as dates, the values of the underlying variables and notional amounts) under which payments are to be made between the parties. The Localism Act 2011 includes a general competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

  The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives (such as interest rate collars, forward deals and those present in pooled funds) will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

- Investment Advisors
  After a market tender, Arlingclose Ltd were re-appointed as the Council's treasury advisors commencing from 1 January 2018. The contract is set to run until 31 December 2020.

- Markets in Financial Instruments Directive
  The Council has opted up to professional client status with its providers of financial services including advisers, banks, brokers and fund managers. This allows it to access a greater range of services but without the greater regulatory protections afforded to retail clients (individuals and small businesses). Given the size and range of the Council's treasury management activities it is considered that this is the most appropriate status.

TREASURY MANAGEMENT INDICATORS 2019/20 TO 2021/22

The Council measures and manages its exposure to treasury management risks using indicators.

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. Fixed rate investments / loans are those where the rate of interest is set for the whole financial year. Instruments that mature during the financial year are classed as variable rate. The table below gives the current and proposed limits. The indicator sets a maximum limit for variable and fixed rates based on the debt position net of investments. No change is proposed to the indicators which have been set to ensure maximum flexibility of fixed and variable rate exposure. The fixed rate is so set to permit the Council to secure certainty of cost in borrowing rather than being over-exposed to refinancing risks from variable rate borrowing. The variable rate is set at 100% so that the Council is not obliged to make long-term investments if market conditions are not favourable.

	Current	2019/20	2020/21	2021/22
Upper Limit of Fixed Rate Exposures	100%	100%	100%	100%
Upper Limit of Variable Rate Exposures	100%	100%	100%	100%

Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period are stated in the table below.

	2019/20 £000	2020/21 £000	2021/22 £000
Limit on principal invested beyond year end	18,000	18,000	18,000

Maturity Structure of Borrowing

This indicator is required as a measure of exposure to refinancing risk. This arises where there are large concentrations of fixed rate debt requiring replacement at a time of interest rate uncertainty. However, at present the Council would wish to retain maximum flexibility as to the periods in which it borrows over. As a debt portfolio becomes established then the indicator will be reviewed to ensure that it remains suitable. Therefore, the upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

MINIMUM REVENUE PROVISION 2019/20

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that borrowing in future years. The amount charged to the revenue budget for the repayment of borrowing is known as the Minimum Revenue Provision (MRP).

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's Statutory Guidance on Minimum Revenue Provision (the Guidance) most recently updated in 2018.

The broad aim of MRP is to ensure that borrowing is repaid over a period that is reasonable commensurate with that over which the capital expenditure provides benefits, in a similar way to the principles of charging depreciation.

The Guidance requires the Council to approve and annual MRP statement each year.

For capital expenditure incurred after 31 March 2019, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation will be charged over 20 years.

Where capital expenditure has been incurred on an asset or assets which are held only for income generation or capital appreciation purposes no MRP will be charged. Such assets are revalued every year and therefore, the Council has an up to date understanding of the value of the assets and whether the realisable value would cover the repayment of any borrowing. If the value of any such asset were to fall below the original purchase price, then the Council would review the reasons for the decrease in value and either dispose of the asset immediately or, if the decrease is considered to be temporary, make an MRP charge based on the revised value until such time as the value has recovered.

Capital expenditure incurred during 2019/20 will not be subject to an MRP charge until 2020/21.

APPENDIX 'D'

2018/19 TREASURY MANAGEMENT PERFORMANCE

(a) Treasury Mid-Year Report

In compliance with the CIPFA Code of Practice, a mid-year treasury report was made to Cabinet at its meeting on 11 December 2018.

(b) Investment and Borrowing

The average investment portfolio from 1 April 2018 to 31 December 2018 was £48.1 million. Set out below are the movement in the investment balances and the rate of return for this period:

	31 March 2018	**31 December 2018**
Investment portfolio	£41,000,000	£46,500,000

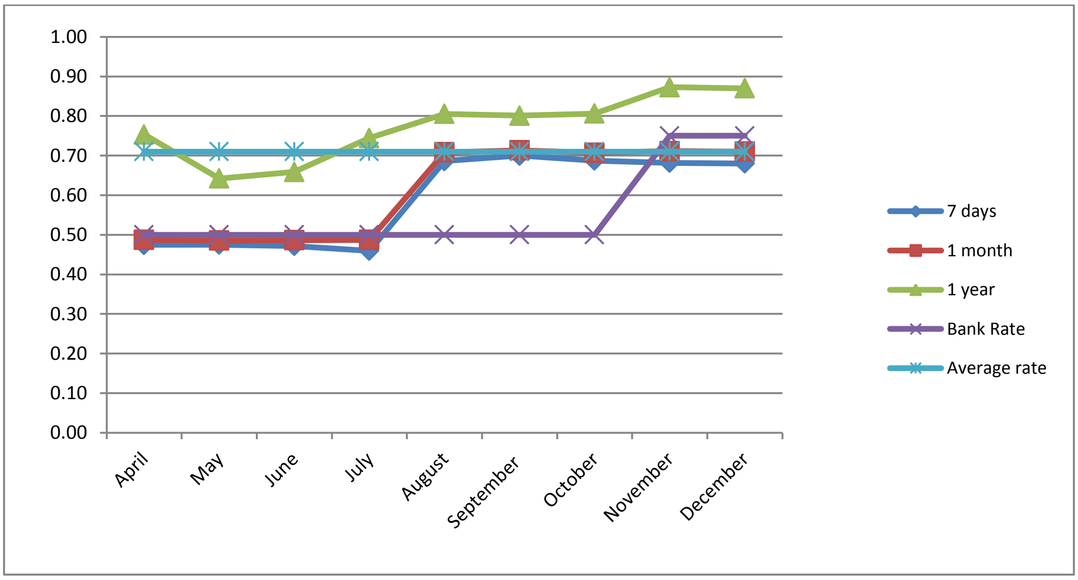
	1 April 2018 to 31 December 2018
Average return on investments	0.72 %
Average Local Authority 7-day rate	0.58 %
Average London inter-bank 1-month offer rate	0.59 %

The average return on investments achieved in the current financial year to date exceeded the local authority seven day rate by 0.14% and the long-term benchmark, the one month LIBOR, by 0.13%. The table below gives the projected average rate of return for 2018/19 shown in the context of the original budgeted income.

Year	**Projected Rate of Return**	**Projected Investment Interest**	**Budgeted Income**
2018/19	0.72%	£300,000	£235,000

(c) 2018/19 Interest Rates

The graph below illustrates the movement in interest rates for the period from April 2018 to December 2018. The three main variables of particular note are the Bank Rate and the benchmark rates (the seven days and one month bid rates):



(f) Approved Lending List

In line with advice from Arlingclose Ltd, the maximum duration of deposits with other Local Authorities has been reduced from four years to two years. Arlingclose do have confidence in the sector and judge the probability of default as low. However, there are signs of some authorities encountering budget difficulties. Their default position is therefore that a reduced duration be observed with exceptions to this only being made after due diligence.

Danske Bank, Credit Suisse, ING Bank and Svenska Handelsbanken have been removed from the authorised counterparty list. Arlingclose's analysis of these banks suggest an elevated risk compared to their peers. Handelsbanken plc, a newly created UK subsidiary, are now included on the schedule with a six month duration limit. The Council holds a deposit account with the UK subsidiary. Abbey National Treasury Services no longer conduct UK business and have therefore been removed from the authorised counterparty list.

Nordea Bank and Rabobank are among the strongest banks in Europe, but with the potential economic slowdown Arlingclose no longer feel that a 13 month duration limit is appropriate. Therefore a six months limit has now been applied.

The current schedule of authorised counterparties and deposits made as at 31 December 2018 are shown in the tables below:

	Max Time Limit	Max Deposit Limit £M	Short-Term £M	Long-Term £M	Group / Country Limit
RATED BUILDING SOCIETIES					
COVENTRY	6 Months	3	3	N/a	N/a
LEEDS	100 Days	3	1	N/a	N/a
NATIONWIDE	6 Months	3	3	N/a	N/a
UNRATED BUILDING SOCIETIES					
DARLINGTON	100 Days	1		N/a	N/a
FURNESS	100 Days	1		N/a	N/a
HARPENDEN	100 Days	1		N/a	N/a
HINCKLEY & RUGBY	100 Days	1		N/a	N/a
LEEK UNITED	100 Days	1		N/a	N/a
MANSFIELD	100 Days	1		N/a	N/a
MARSDEN	100 Days	1		N/a	N/a
MELTON MOWBRAY	100 Days	1		N/a	N/a
NATIONAL COUNTIES	100 Days	1	1	N/a	N/a
NEWBURY	100 Days	1		N/a	N/a
SCOTTISH	100 Days	1		N/a	N/a
TIPTON & COSELEY	100 Days	1		N/a	N/a
UK BANKS					
BARCLAYS BANK PLC	100 Days	3		N/a	N/a
CLOSE BROTHERS	6 Months	3		N/a	N/a
GOLDMAN SACHS INTERNATIONAL	100 Days	3	2	N/a	N/a
HSBC BANK PLC / HSBC UK BANK PLC	6 Months	3		N/a	N/a
LLOYDS BANKING GROUP -BANK OF SCOTLAND PLC -LLOYDS BANK PLC	6 Months	4		N/a	4
SANTANDER UK PLC	6 Months	3	3	N/a	N/a
STANDARD CHARTERED BANK	6 Months	3		N/a	N/a
EUROPEAN BANKS					
OP CORPORATE BANK PLC	6 Months	3		N/a	6
LANDESBANK HESSEN-THURINGEN	6 Months	3		N/a	6
COOPERATIEVE RABOBANK	6 Months	3		N/a	6
NORDEA GROUP -NORDEA BANK AB -NORDEA BANK FINLAND PLC	6 Months	3		N/a	6
HANDELSBANKEN PLC	6 Months	3		N/a	

	Max Time Limit	Max Deposit Limit £M	Short-Term £M	Long-Term £M	Group / Country Limit
OVERSEAS BANKS					
AUSTRALIA & NEW ZEALAND BANKING GROUP	6 Months	3		N/a	6
COMMONWEALTH BANK OF AUSTRALIA	6 Months	3	2	N/a	
NATIONAL AUSTRALIA BANK	6 Months	3		N/a	
WESTPAC BANKING CORPORATION	6 Months	3		N/a	
BANK OF MONTREAL	6 Months	3		N/a	6
BANK OF NOVA SCOTIA	6 Months	3		N/a	
CANADIAN IMPERIAL BANK OF COMMERCE	6 Months	3		N/a	
ROYAL BANK OF CANADA	6 Months	3		N/a	
TORONTO DOMINION BANK	6 Months	3		N/a	
DEVELOPMENT BANK OF SINGAPORE	13 Months	3	3	N/a	6
OVERSEA-CHINESE BANKING CORPORATION	13 Months	3		N/a	
UNITED OVERSEAS BANK	13 Months	3	2.5	N/a	
LOCAL AUTHORITIES					
BLAENAU GWENT COUNTY BOROUGH COUNCIL	2 Years	3	2		N/a
EASTLEIGH BOROUGH COUNCIL	2 Years	3	1		N/a
LANCASHIRE CITY COUNCIL	2 Years	3	2		N/a
LEEDS CITY COUNCIL	2 Years	3	2		N/a
NORTH LANARKSHIRE COUNCIL	2 Years	3	3		N/a
PETERBOROUGH CITY COUNCIL	2 Years	3		2	N/a
SLOUGH BOROUGH COUNCIL	2 Years	3	1		
UK CENTRAL GOVERNMENT BONDS	50 Years	Unlimited			N/a
DMO DEBT MANAGEMENT DEPOSIT	50 Years	Unlimited			N/a
SUPRANATIONAL COUNTERPARTIES					
NORDIC INVESTMENT BANK	25 Years	3			N/a
COUNCIL OF EUROPE DEVELOPMENT	15 Years	3			N/a
EUROPEAN BANK FOR RECONSTRUCTION	25 Years	3			N/a
EUROPEAN INVESTMENT BANK	25 Years	3			N/a
INTER-AMERICAN DEVELOPMENT BANK	25 Years	3			N/a
INTERNATIONAL BANK FOR RECONSTRUCTION	25 Years	3			N/a

MONEY MARKET FUND ACCOUNTS

	Max Time Limit	Max Deposit Limit £M	Short-Term £M	Long-Term £M	Group / Country Limit
BLACKROCK GLOBAL INVESTORS	N/a	5		N/a	30
DEUTSCHE BANK GLOBAL LIQUIDITY	N/a	5	4	N/a	
STANDARD LIFE LIQUIDITY FUND	N/a	5	3.5	N/a	
INSIGHT LIQUIDITY PLUS FUND	N/a	5		N/a	

Schedule of Loans / Investments as at 31st December 2018.

TEMPORARY LOANS

Ref	Amount £	Rate %	Name	Type	Maturity	Long-Term Rating[1]
TLP1	5,000,000	1.00	Somerset County Council	Fixed	27/8/2019	Unrated
TLP3	5,000,000	1.00	Comhairle Nan Eilean Siar	Fixed	27/8/2019	Unrated
TLP4	4,700,000	0.80	St Helens Metropolitan Borough Council	Fixed	12/6/2019	Unrated
TLP5	3,000,000	1.00	Chesterfield Borough Council	Fixed	27/8/2019	Unrated
TLP6	3,850,000	1.00	Waverley Borough Council	Fixed	27/8/2019	Unrated
TLP7	6,000,000	1.05	Solihull Metropolitan Borough Council	Fixed	4/9/2019	Unrated
TLP8	9,000,000	1.05	Portsmouth City Council	Fixed	4/9/2019	Unrated
TLP9	3,000,000	1.05	Ryedale District Council	Fixed	4/9/2019	Unrated
TOTAL	39,550,000					

TEMPORARY DEPOSITS

Ref	Amount	Rate %	Name	Type	Maturity	Long-Term Rating[1]
TI1692	3,000,000	0.65	Handelsbanken Deposit Account	Call	N/a	AA-
TI1665	5,000,000	0.70	Aberdeen Liquidity Fund	Call	N/a	AAA
	8,000,000		Total Temporary			

Ref	Amount	Rate %	Name	Type	Maturity	Long-Term Rating[1]
TI1833	1,000,000	0.75	United Overseas Bank	Fixed	17/1/2019	AA-
TI1909	1,000,000	0.75	Leeds City Council	Fixed	17/1/2019	Unrated
TI1911	1,000,000	0.90	Lloyds Bank plc	Fixed	17/1/2019	A+
TI1913	1,000,000	0.70	Stockport Metropolitan Borough Council	Fixed	25/1/2019	Unrated
TI1918	1,000,000	0.685	Goldman Sachs International Bank	Fixed	8/2/2019	A
TI1896	2,000,000	0.79	Coventry Building Society	Fixed	15/2/2019	A
TI1827	2,000,000	0.88	Santander UK plc	Fixed	18/2/2019	A
TI1914	1,000,000	0.68	Nationwide Building Society	Fixed	19/2/2019	A
TI1657	1,000,000	0.83	National Counties Building Society	Fixed	22/2/2019	Unrated
TI1917	1,000,000	0.74	Landesbank Hessen Thuringen	Fixed	25/2/2019	A
TI1803	1,000,000	0.78	Development Bank of Singapore	Fixed	15/3/2019	AA-
TI1886	1,000,000	0.65	Slough Borough Council	Fixed	15/3/2019	Unrated
TI1910	1,000,000	0.82	Landesbank Hessen Thuringen	Fixed	18/3/2019	A
TI1916	2,000,000	0.70	Nationwide Building Society	Fixed	18/3/2019	A
TI1907	1,000,000	0.85	Eastleigh Borough Council	Fixed	20/3/2019	Unrated

Ref	Amount	Rate %	Name	Type	Maturity	Long-Term Rating[1]
TI1908	2,000,000	0.87	Blaenau Gwent County Borough Council	Fixed	4/4/2019	Unrated
TI1891	1,000,000	0.95	Development Bank of Singapore	Fixed	16/4/2019	AA-
TI1912	2,000,000	0.85	Leeds City Council	Fixed	16/4/2019	Unrated
TI1806	1,000,000	0.83	Development Bank of Singapore	Fixed	23/4/2019	AA-
TI1850	1,500,000	0.84	United Overseas Bank	Fixed	25/4/2019	AA-
TI1915	3,000,000	0.85	Luton Borough Council	Fixed	1/5/2019	Unrated
TI1884	1,000,000	0.81	Coventry Building Society	Fixed	7/5/2019	A
TI1920	1,000,000	0.95	Slough Borough Council	Fixed	14/6/2019	Unrated
TI1921	2,000,000	0.92	Salford City Council	Fixed	17/6/2019	Unrated
TI1922	2,000,000	0.93	London Borough of Southwark	Fixed	17/6/2019	Unrated
TI1906	1,000,000	0.99	Santander UK plc	Fixed	19/6/2019	Unrated
TI1788	2,000,000	2.40	Peterborough City Council	Fixed	28/6/2019	Unrated
	38,500,000		Total Fixed			
TOTAL	46,500,000					

[1] Lowest long-term credit rating of Moodys, Fitch or Standard & Poors.