Appendix C – Capital Strategy & 2019/20 – 2021/22 Capital Programme

Capital Strategy

Under the revised Prudential Code, the Council is now required to annually to approve a strategy that sets out plans for capital investment, demonstrates the linkages to treasury management and demonstrates that the plans are proportionate to the size and risk appetite of the Council.

There are a number of controls around non-financial investments; such as investments in property for a financial return. These will generally count as capital expenditure and therefore the capital expenditure and financing plans are subject to Council approval as part of the annual budget setting process.

In addition to traditional financial investments, the Council also has investment property which makes a contribution to the Council's income. As at 31 March 2017, the Council's investment property was valued at £2.3m. Net income from investment property for 2017/18 was £131,000, providing a yield of 5.6%.

As part of the budget to be approved for 2019/20 a Capital Programme has been prepared. The borrowing impact of this is reflected in the Prudential and Treasury Indicators within Appendix D of this report. It contains no plans to borrow to fund acquisition of investment properties. Any material amendments to this would require further approval by Council. This would also ensure that as part of the due diligence, cash flow and other risks, including whether the magnitude of investment is proportional to Council's size, would be considered and documented.

The proposed Capital Programme for 2019/20 – 2021/22 is set out overleaf.

2019/20 – 2021/22 Capital Programme

Directorate / Funding Source	Original 19/20 Budget (incl in 1819 MTFS)	Reprogrammed from 2018/19 into 19/20	Planned budget for 2019/20	Planned budget for 2020/21	Planned budget for 2021/22	Total	Financing the 3 year programme 2019/20 - 2021/22 Budget: Usable Capital Receipts	Capital grants	Revenue Reserves / Revenue Contribution	Borrowing (Internal)	Total Funding
Accommodation Strategy	0	1,667	1,667	-	-	1,667			667	1,000	**1,667**
Investment in ICT	100	250	350	-	-	350	350				**350**
Millom Cemetery		2	2	-	-	2	2				
Pay & Display Stock		4	4	-	-	4	4				
Whitehaven Cemetery Extension	0	205	205	-	-	205	61	144			**205**
Bereavement Services	200	645	845	-	-	845	845	-			**845**
Disabled Facilities Grants	600	0	600	600	600	1,800	-	1,800			**1,800**
Whitehaven Townscape Heritage Initiative	0	23	23	-	-	23	-	23			**23**
Beacon Museum Expansion	0	120	120	-	-	120	-	120			**120**
Town Centre Regeneration	250	521	771	-	-	771	771				**771**
Land Development	250	750	1,000	250	-	1,250	1,250				**1,250**
Total	**1,400**	**4,187**	**5,587**	**850**	**600**	**7,037**	**3,283**	**2,087**	**667**	**1,000**	**7,037**

Appendix D

COPELAND BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS), MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20

INTRODUCTION

Background

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

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 any borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash could involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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 costs 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 to the General Fund Balance.

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."

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, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

This authority has not engaged in any commercial investments and has no (or immaterial) non-treasury investments.

Copeland's Portfolio and Investment Strategy

Copeland Borough Council currently holds an average investment portfolio of approximately £35 million. The majority of this money is working capital or held in a combination of provisions and revenue and capital reserves and is earmarked for various purposes. However, the range of funds can be much higher at the start of the financial year depending on cash flow movements and the receipt of an advance payment of a full year business rates by the Council's largest ratepayer (approximately £30 million). Most of this large cash balance at the start of the year does not belong to the Council. It is invested in a range of maturities to facilitate the requirement to pay over regular amounts of the advance funding to the Government and County Council in accordance with the agreed schedule of payments.

The main principle governing the Council's investment criteria is the security and liquidity of its investments, with yield (or return) then being considered. The Council's counterparty list is derived from the minimum credit ratings set in conjunction with our Treasury Management Advisors, Link Asset Services. This list limits the Council to use the counterparties for investment that are at or above the minimum criteria approved. Should the criteria be set too low then the Council would be open to risk; if set too high it could make it difficult to place funds. The TMSS sets out the overall policy parameters, with officers using their judgement within the parameters set as required.

Wherever possible, and within the security limits, the Council maximises interest by fixed term investments with the banks for up to a year and up to the maximum limits set out in the strategy. As noted above, at peak cash inflow times the Council has c. £50 million to invest. The Council aims for diversification through the use of other counterparties who meet our minimum criteria and through the use of pooled investment vehicles, Money Market Funds. These are highly secure, liquid institutions with the yield being generally lower because of the flexibility of instant access to funds. This, in turn reduces the average investment interest rate achieved compared to longer term fixed rate deposits. The objective continues to be that we achieve a rate above the 7 Day LIBID (London Interbank Bid Rate – the rate at which banks bid to borrow) as a benchmark.

Members should note that the limits that are presented throughout this report have been discussed with the Council's treasury management advisors and are deemed acceptable for the current risk appetite.

Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, 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; and
- the implications for future financial sustainability.

Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports have been received by the Overview and Scrutiny Committee.

Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators; and
- the minimum revenue provision (MRP) policy.

Treasury management issues

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

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

Training

The CIPFA Code requires the responsible officer (the S151 Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management.

Treasury Management Consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors but recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the external service providers.

The Council 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.

THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2020/21

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

Capital expenditure

This prudential indicator is a summary of the Council's draft capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, the full details of which are elsewhere on the agenda for consideration. The following table summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £000's	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total in the capital programme	1,493	5,587	850	600
Financed by:				
Capital receipts	(530)	(3,033)	(250)	
Capital grants	(963)	(887)	(600)	(600)
Revenue		(667)	0	
Other				
Net financing (borrowing) need for the year	**-**	**1,000**	**-**	**-**

The above financing need excludes other long term liabilities, such as Public Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments.

The Council's borrowing need (the Capital Financing Requirement - CFR)

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

In any event, the CFR does not increase indefinitely as it is required to be paid off over time from the annaul Minimum Revenue Provision. MRP is a statutory annual revenue charge which reduces the borrowing need broadly in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). The main element of the Council's CFR is the PFI scheme. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to borrow separately.

£000's	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
Total CFR	7,343	6,991	7,696	7,379	7,041
Movement in CFR	346	(352)	704	(317)	(338)
Movement in CFR represented by					
Net financing need for the year (above)	839	0	1,000	0	0
Less MRP and other financing movements	(493)	(352)	(296)	(317)	(338)
Movement in CFR	346	(352)	704	(317)	(338)

Note the MRP will include PFI/finance lease annual principal payments

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances / reserves	13.54	10.86	8.58	6.85	6.85
Capital receipts	6.68	5.41	2.63	2.63	2.88
Provisions	0.36	0.36	0.36	0.36	0.36
Other					
Total core funds	**20.58**	**16.63**	**11.57**	**9.84**	**10.09**
Working capital*	14.42	15.04	15.57	16.08	16.60
Expected investments	**35.00**	**31.67**	**27.14**	**25.92**	**26.69**

**Working capital balances largely relate to Council Tax and Business Rates*

Minimum Revenue Provision (MRP) policy statement

The Council is able to increase the rate it reduces its CFR by making a voluntary charge to revenue in addition to the Minimum Revenue Provision (MRP). This is not currently the Council's policy.

The Council must approve a prudent MRP, although there are a variety of options as to how the amount is calculated. Government regulations require the full Council to approve an MRP Statement, describing which option is to be followed, in advance of each year.

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

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations. This option provides for a reduction in the borrowing need over the asset's estimated life.

Repayments of PFI or Finance Leases are allowable to use as a proxy for the above methods. The reduction in the CFR above is as a result of the PFI and finance lease MRP.

Affordability prudential indicators

The previous paragraphs and Section 3 cover the overall capital and control of borrowing prudential indicators, but within the prudential framework the Council is also required assess the affordability of capital investment plans. This provides an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators in respect of the actual and estimated ratio of financing costs to its net revenue stream.

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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Ratio	8.21	5.63	5.63	5.32	4.96

The estimates of financing costs include current commitments and the proposals in the most current budget report.

BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the 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.

Current portfolio position

The Council's debt portfolio contains one remaining Market Loan of £5 million which will mature on 1st February 2042. The rate is fixed at 7.55% with interest payments of £377,500 a year. The status of this loan is continually assessed to determine whether better terms can be obtained. Currently, it is better to leave the loan in its present form, as the penalty for repaying early would be prohibitive. This was estimated at £5.577m (on top of the £5m debt repayment) on 3 January 2019. The costs of redemption therefore outweigh any benefit and this will remain the case for as long as base rates remain significantly below the rate payable on the loan.

In the event of a need to borrow further, the Section 151 Officer has delegated power, under Section D of Part 2 of the Scheme of Delegation, to undertake the most appropriate form of borrowing depending on prevailing interest rates. Such a decision would be reported to the appropriate decision making body at the soonest opportunity.

The Council's treasury portfolio position at 31 March 2018 summarised below with forward projections. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the CFR), indicating an over-borrowed position.

£000's	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt					
Debt at 1 April	5,000	5,000	5,000	5,000	5,000
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	5,424	5,068	4,716	4,420	4,103
Expected change in OLTL	0	-356	-352	-296	-317
Actual gross debt at 31 March	**10,424**	**9,712**	**9,364**	**9,124**	**8,786**
The Capital Financing Requirement	**6,997**	**6,641**	**7,269**	**6,973**	**6,656**
(Under) /over borrowing	**3,427**	**3,071**	**2,095**	**2,151**	**2,130**

Within the prudential system there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Council's current indebtedness covers both the PFI and external debt, which exceeds the CFR. Essentially, this results from the Council's Large Scale Voluntary Transfer of the housing stock. As the Council cannot currently repay the £5 million loan economically, this is allowed, as an exception, by the prudential indicator above and will be corrected at the earliest practicable time.

Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR (capital financing requirement), but may be lower or higher depending on the levels of actual debt. It is to be used solely as a guideline figure.

Operational boundary £000's	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	5,000	5,000	5,000	5,000	5,000
Other long term liabilities	7,000	7,000	7,000	7,000	7,000
Total	**12,000**	**12,000**	**12,000**	**12,000**	**12,000**

The authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and is set or revised by the Council. It reflects the level of external debt which, while not desirable, could be afforded in the short term but is not sustainable in the longer term. It is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Members are asked to approve the following authorised limit (no change from current year):

Authorised limit £000's	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	9,000	9,000	9,000	9,000	9,000
Other long term liabilities	8,000	8,000	8,000	8,000	8,000
Total	**17,000**	**17,000**	**17,000**	**17,000**	**17,000**

Policy on borrowing in advance of need

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

Debt rescheduling

As short term borrowing rates will generally be 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, as stated earlier in 3.1, the current cost of repaying the £5 million debt is prohibitive.

The reasons for any rescheduling to take place would include:

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

The potential to make 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) will also be considered.

Any rescheduling decision made by the Section 151 Officer will be reported to Members, at the earliest opportunity.

Prospects for Interest rates

Part of the service provided by the treasury advisor is to assist the Council to formulate a view on interest rates. The following table is a bank base rate forecast which drives investment returns and borrowing rate forecasts.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30th June meant that the Monetary Policy Committee (MPC) on 2 August made the first increase in Bank Rate above 0.5% since 2008, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer.

The s151 officer will monitor the balance of short term investment rates and longer term borrowing rates to minimise any adverse impact on the budget.

ANNUAL INVESTMENT STRATEGY

Investment policy

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

In accordance with the above guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important continually to 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.

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

In respect of the return that it derives on its investments, the Council continues to face the twin pressures of:

- market rates which, although somewhat increased following the recent base rate rise, remain at what are historically very low levels, and
- the need to maximise income from all sources, in order to support the Council's budget against a continuing background of severe financial constraint, remaining as acute as ever.

Against this background, it is proposed that:

- The policy originally adopted in the 2018/19 Strategy whereby, where appropriate, consideration will be given to investment opportunities which, although fully consistent with the Council's strict creditworthiness requirements (see 4.2 below), may not be with the most highly rated institutions available under those requirements, will be continued in 2019/20.
- Use will be made of opportunities to place investments for periods of more than one year, where this is consistent with forecast cash flow requirements and within the limits stated elsewhere in this document, i.e. such investments in total will be for a maximum of either 50% of the overall portfolio (see 4.2 below) or £20m (see Table 11), whichever is the lesser.

Any such lending would be made under the powers delegated to the Section 151 Officer, under Section D of Part 2 of the Scheme of Delegation, to invest available funds on appropriate terms and in accordance with the Council's investment strategy. Again security remains, and will remain, the primary principle in the consideration of investment opportunities.

Investment instruments identified for use in the financial year are either '**Specified' Investments** (i.e. investments with maturities of up to a maximum of one year meeting the high quality criteria) or **'Non-Specified' investment** categories (i.e. all other investments that do not meet the Specified criteria). Counterparty limits will be as set through the Council's treasury management practices schedules.

Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 **-** good credit quality – the Council will only use banks which:
    i. are UK banks; or
    ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
    i. Short term – F1
    ii. Long term – A-

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or they meet the ratings in Banks 1 above.

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Money market funds – AAA
- Short dated bond funds (LVBFss)*
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc.
- Supranational institutions
- Property Funds**

* Low Volatility Bond Funds are similar to the current MMF's and should allow marginally higher returns. These funds invest slightly longer than the current liquid MMF's and access to monies is usually over a 1 or 2 day notice period, rather than immediately. Officers will consult with our advisers over their introduction.
**Property Funds are longer term investments and although are not currently used by the Council the option may be used in future financial years. Officers will consult with our advisers over their introduction and are subject to an additional report.

A limit of 50% of the whole portfolio will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council currently limits its investments to UK countries, but should that change the Council has determined that it will only use approved counterparties from countries (excluding the UK) with a minimum sovereign credit rating of AAA from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than 50% of the whole portfolio will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Time and monetary limits applying to investments. 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):

Institution Limits	Fitch Long term Rating (or equivalent)/ Fund Rating	Money Limit £	Time Limit
Banks 1 higher quality	AA-	£5m	3yrs
Banks 1 medium quality	A-	£5m	100 days
Banks 2 – part nationalised	-	£10.1m**	1yr
Limit 3 category – Council's banker (not meeting Banks 1)	-	£10k	1 day
DMADF	AA	unlimited	6 months
Local authorities	N/A	£5m	1yr
Money market funds (SNAV, VNAV and LNAV)	AAA	£10m*	liquid
Enhanced money market funds	AAA	5 / 10%	liquid

** This is set at £10.1m, rather than £10m to to allow an overnight balance on the Council's NatWest currrent account of £100k, when circumstances require. The present procedure that ensures that the current account balance remains around £5k overnight will remain. However, any income that is received after the dealing is complete for the day will be unable to be invested the same day and needs to be invested the next working day. The additional £100k allows this flexibility in day to day treasury operations. Details of any receipt transaction in excess of £100k (that has been credited to the current account after the dealing is complete) is reported within the next scheduled Treasury Report to Executive.*

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.50%

The overall balance of risks to economic growth 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 dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

It should be noted however the above rates are probably unachievable for the Council over the whole portfolio. This is because AAA rated Money Market Funds are used for nearly half of the portfolio as they are highly secure institutions but the yield is lower than base rate, which in turn reduces the average interest rate achieved. The Council does continue to be above the 7 Day London Iterbank Bid rate (LIBID the rate at which a bank is willing to borrow from other banks) as a benchmark.

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

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

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

Maximum principal sums invested for longer than 365 days	
Principal sums invested > 365 days	£20m

End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report which is presented at the same time as the Outturn reports.

APPENDIX D1: Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

APPENDIX D2: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX D3: The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above