Agenda Item No 8(d)

DERBYSHIRE COUNTY COUNCIL

COUNCIL

6 February 2019

Report of the Director of Finance & ICT

CAPITAL PROGRAMME APPROVALS, TREASURY MANAGEMENT AND CAPITAL STRATEGIES

1 Purpose of the Report

To obtain approval for proposals relating to the capital starts programme for 2019-20 and the Treasury Management, Investment and Capital Strategies.

2 Information and Analysis

In line with previous years, the proposed new Capital Starts Programme for 2019-20 has been evaluated and it is recommended to proceed with new borrowing of £14.441m (excluding invest to save schemes). The detailed proposals are set out in Appendix 1 of this report.

The Treasury Management Strategy Report for 2019-20 (Appendix 2) sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks.

The Investment Strategy Report for 2019-20 (Appendix 3) deals with the management of the Council's balances and reserves, managing the balance between risk and return.

The Capital Strategy (Appendix 4) is a new report for 2019-20, and provides a high level overview of how capital expenditure and capital financing contribute to the provision of local public services.

3 Considerations

In preparing the report the relevance of the following factors has been considered: financial, legal, human resources, environmental, social value, property and transport.

4 Background Papers

Local Government Act 2003; Prudential Code 2017; Treasury Management in the Public Services; Capital Accounting Working Papers.

5 Officer's Recommendations

That Council:

5.1 approves the 2019-20 Capital Starts Programme set out in Appendix 1;

5.2 adopts the Treasury Management Policy set out in Appendix 2;

5.3 adopts the Investment Strategy set out in Appendix 3; and

5.4 adopts the Capital Strategy set out in Appendix 4.

PETER HANDFORD

Director of Finance & ICT

Appendix 1

CAPITAL PROGRAMME 2019-20

The proposed new starts programme for 2019-20, along with funding streams, as shown in table 1, has been evaluated and it is recommended to proceed with new borrowing of £14.441m (excluding invest to save schemes). More details on each individual scheme are set out below.

Schemes are funded from a combination of Government grants, capital receipts, use of reserves and contributions from revenue budgets. Capital receipts are normally used to support the overall programme. In cases where a new project is directly dependent on the disposal of an existing asset, for example, the replacement of a school, then the receipt from the disposal of the 'old' asset can be earmarked to fund the replacement.

The Capital Programme remains affected by the downward pressure on the council's finances. The main limiting factor on the Council's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by Central Government, which is now mainly through capital grants. Because of this, the limit on new borrowing should be no more than £15m.

The Council will receive estimated government grants of just under £42m to address key issues in highways and maintenance, develop integrated transport schemes and address the most immediate condition problems in schools. Funding to cover the funding gaps on the Bennerley and Glossopdale projects are requested.

There is also a bid to refurbish the Winter Gardens, County Hall to prevent it from further decay. Once it is completed, it will be used as a multi-functional space for events and functions, meetings and as a break-out area.

In line with the Council's ICT Strategy, a full capital replacement programme is being developed, to ensure that all capital related ICT hardware and software will be replaced over a five year cycle.

Table 1 Capital Programme Bids 2019-20

Funding Streams

	Grant	Capital receipts	Borrowing	Invest to Save	Total
	£'000	£'000	£'000	£'000	£'000
Children's Services					
Basic Need	6,283				6,283
Devolved Formula Capital	2,144				2,144
Schools Condition Allocation	8,632				8,632
Hopewell Children's Home			250		250
School Access initiative			800		800
Breadsall Primary School			1,800		1,800
Glossopdale School			1,000		1,000
Adult Care					
DFG Adaptations	1,500		4,000		5,500
Communities, Commissioning and Policy					
Winter Gardens Refurbishment			1,700		1,700
Kitchen Ventilation Schemes			703		703
Libraries – Self Service			413		413
ICT Strategy			2,000		2,000
Environment, Transport and Economy					
Vehicle Replacement – Gritters				450	450
Vehicle Replacement Programme				3,860	3,860
Land reclamation	137	2,215	325		2,677
Flood Management	85				85
Elvaston Castle – Carriage Shelter and Staff Compound			450		450
Culvert Repairs			1,000		1,000
LED Street Lights				5,760	5,760
Local Transport Plan	22,098				22,098
TOTAL	**40,879**	**2,215**	**14,441**	**10,070**	**67,605**

Summary of Individual Schemes

Disabled Facilities Grant £5.500m

Disabled people requiring major adaptation to their accommodation are able to apply for a Disabled Facilities Grant (DFG) administered by District councils. The DFG is mandatory if the applicant is unable to access essential facilities within their home. The County Council has a duty to identify suitable works based upon an assessment of individual needs; however, the decision to approve the grant lies with the District council.

The DFG process is prescribed by legislation and regulations and requires that applicants are subject to a Test of Resources (means test). This could result in a grant to cover all of the work (up to £30,000), a grant to cover part of the work, or the applicant is deemed to be able to meet all of the costs.

The decision on funding is the responsibility of the relevant District council. However, the County Council, as part of its legal duties under the Chronically Sick and Disabled Person Act 1970, is required to provide financial assistance where it is deemed that the applicant cannot meet some or all of the cost of the adaptation.

Basic Need £6.283m

The DFE grant allocation for Basic Need Schemes is to provide additional school places in areas of population growth. There are a number of primary sector schools which are candidates for this funding for which feasibility studies have been undertaken. A priority list of potential projects is being finalised.

Schools Condition Allocation £8.632m

The DFE grant funding is to cover the cost of upgrading and maintaining the condition of school accommodation to suit the needs of education in Derbyshire. Projects funded on school buildings where the condition is poor include re-roofing, replacement window and doors, re-heating and re-wiring. A priority list of potential projects will be finalised once the actual grant figure is known.

Schools Access Initiative £0.800m

The Schools Initiative Funding is for improving access into Derbyshire schools for children with disabilities, by providing reasonable adjustments to school buildings and ensuring compliance with the Equality Act.

Devolved Formula Capital £2.144m

This grant funding is devolved directly to schools by the DFE to spend on their amp priorities, or to contribute to capital projects funded by the Council in accordance with approved policies.

Hopewell Children's Home £0.250m

The home is currently closed. Children's Services aim to remodel and refurbish the building in order to provide a 'therapeutic' home/service for children and families in need.

Breadsall Primary School £1.800m

The Bennerley and Breadsall Projects are to re-locate the Amber Valley and Erewash KS3 Pupil Referral Unit from premises on the site of the Derbyshire Support Centre, Breadsall and refurbish the premises on the old Bennerley Secondary School site in Ilkeston. A section of the vacated building at Breadsall was subsequently due to be refurbished to accommodate Breadsall Primary School. The primary school element of the project has encountered difficulties due to the condition of the building, the presence of additional asbestos and damage caused by vandalism. The revised costs are such that a full re-build is now being considered as a more cost effective option and the additional £1.8m is required to complete the project.

Glossopdale School £1.000m

The new school building is now completed but the demolition and site works are still on-going. There is a projected overspend on the final account of approximately £1m. This has arisen due to a large increase in the cost of demolition of the Hadfield site buildings due to more asbestos being found than expected.

Winter Gardens Refurbishment £1.700m

This funding is for the refurbishment of the Winter Gardens accommodation at County Hall, including the flooring, walls, glazing, heating, lighting, ventilation and toilet provision.

The Winter Gardens will continue to decay whilst it remains vacant. The longer it remains vacant, the more it will decay and the more it will cost to bring it back into use.

Once it has been refurbished, it will be used as a multi-functional space for events and functions (for example weddings, craft fayres, beer festivals etc), meetings and break-out space.

Kitchen Ventilation Schemes £0.703m

The Council is under a statutory duty to provide safe premises from which it can deliver its services and its employees can work. Part of this involves compliance with gas safety regulations and ensuring safe kitchens for staff and service users in schools, residential premises and other Council premises that have catering kitchens. This funding is required to enable the continuation of a planned programme of works to improve and upgrade gas ventilation systems in Council owned schools, residential premises and other premises that have catering kitchens and also to establish a contingency pot to fund emergency works where premises are in danger of imminent closure due to non-compliance with gas safety regulations.

Libraries – Self Service £0.413m

The majority of the self-service kiosks currently located in libraries are outdated, are nearing the end of their working life and are in need of replacement. To ensure that the service continues to meet its statutory obligations, remains fit for purpose, innovative and responsive to customer needs, it is essential to replace all the existing machines. Given recent developments and significant improvements in the self-service technology, the replacement programme would also help to achieve some of the staffing savings identified in the library service strategy. It would also build in some key infrastructure for the potential establishment of ‘Smart Libraries’ in the future, which would lead to further service improvement and the achievement of savings.

Elvaston Castle Staff Compound and Carriage Shelter £0.450m

The redevelopment of the Farmyard site to create a new staff base is an essential part of a larger project funding bid to create a new visitor hub at Elvaston Castle. The building and adjacent areas currently used by rangers will be converted to retail or office use as part of the major bid. Co-location with the gardening staff would then be desirable, freeing up the bothy range of buildings for further commercial development.

Structural repairs and re-roofing are required to the Carriage Shelter as an essential part of a subsequent larger project funding bid to create a new visitor hub at Elvaston Castle.

The major bid will include the creation of retail, hospitality, office and workshop facilities in repaired historic buildings which will, when converted, generate revenue for further repairs and operational costs towards providing a sustainable future for Elvaston Castle and Country Park.

As buildings are appropriately converted, revenue streams will develop and allow the phased transfer of the estate from DCC to Elvaston Castle & Gardens Trust, thus relieving the Council of significant repair and operational costs

Sheffield Rd Culvert – Chapel-en-le-Frith £1.000m

The Council has a defective culvert which runs beneath the Council's Chapel Highway Depot and then crosses Sheffield Road (adopted highway). Upon an ad-hoc structural inspection it was identified that the structure is unsafe and poses a high risk of structural collapse. The risk of collapse has been mitigated by imposing a 7.5 ton wait restriction on Sheffield Road and removing access for vehicles in and out of Chapel Depot. A detailed design is currently being drawn up and an estimated budget figure to support this design is currently estimated at £1m. These works are required to safeguard not only the adopted highway but the Council's land holdings (The Depot site). The proposed works have to be undertaken within stringent consents and licences set by the Environment Agency (EA) as the culvert supports the flow of a Main River. All capital works will have to be undertaken under conditions and statutory consents set by the EA. The impact of collapse would lead to the closure of Sheffield Road, damage to DCC land holdings, high probability of flood risk to surrounding residential properties and businesses. The impacts would be felt both economically and socially by Chapel-en-le-Frith and wider Derbyshire communities.

Street Light Conversion to LED £5.760m

This project is the conversion of the street lighting stock on the highway network to LED technology. An initial £23.3m, funded from borrowing, was approved to upgrade the Residential Network (Cabinet 21 October 2014). A further £8.8m, funded from borrowing on an Invest to save basis, was approved to upgrade the Strategic Network (Cabinet 4 April 2017). Savings are anticipated both from reduced energy consumption and reduced maintenance costs due to the greater lifecycle and reliability of the LED lanterns. Furthermore, suppliers are starting to withdraw existing specification lanterns from the market, requiring conversion to LEDs to ensure continued service coverage. The project has been severely impacted by complex procurement issues, resources constraints and a delay in undertaking structural testing to inform detailed design on the Strategic Network. On review of the progress of the LED implementation, there is now anticipated to be an additional £5.76m of capital funding required to complete the whole project. However, it is still anticipated that the overall delivery of the project, albeit completed over a longer time line, will deliver a £1.140m net base budget reduction by 2021-22.

Vehicle Replacement Programme £3.860m

The Vehicle Replacement Programme has been developed on the age factor and the mechanical condition of the vehicle fleet. The average age of the vehicles needing to be replaced is ten years of age. The programming and scheduling of vehicles for routine safety inspection, servicing and testing of fleet vehicles ensure roadworthiness standards are maintained. However, as the vehicles reach such an age, operational use renders them as less economical to maintain, more unreliable and expensive to operate, when based on the benefits of new vehicles with their new technologies. In some cases, these older vehicles are becoming less fit for purpose.

The investment will assist in bringing the Council's vehicle fleet to a standard that minimises inefficient maintenance and operational costs and bring the benefits of new vehicles with their new technologies.

Vehicle Replacement Programme – Gritters £0.450m

Due to the lead in time for ordering new winter maintenance vehicles, approval is required in 2019-20 to place orders for vehicles to be ready for winter 2020-21. The vehicles would not be paid for until the Council takes delivery in 2020 but certainty of funding is required before orders can be placed.

Part of the bid also covers the replacement of gritters and snow ploughs. Due to the specialist type of vehicles, the lead in time for the manufacture of all wheel drive chassis and the fitment of the specialist gritter body and associated equipment is between nine and twelve months.

Markham Vale/Land Reclamation £2.677m

Funding for the land reclamation programme is predominantly provided through capital grants secured from a variety of external funding organisations, with the Council providing some pump-prime investment. The funding may be used to match other funding from outside bodies and the Council will continue to do so with further bids, working together with the Countryside team. It also assists with early scheme development on proposed works. The funding is also required to enable the Council to meet statutory obligations on land in its ownership, particularly around physical and environmental work on mines, tips and quarries to deal with hazards and contamination. The work on Chesterfield Canal also supports many hours of volunteer time through partnership working and a Memorandum of Understanding which, together with significant capital investment from the Chesterfield Canal Trust, all contributes to the ongoing restoration programme.

Funding for Markham Vale is predominantly provided through capital grants secured from a variety of external sources and capital receipts from land sales, with the Council providing some investment.

Flood Management Schemes £0.085m

There are a number of proposed schemes in areas that have experienced flooding, which are designed to reduce the risks of flooding in future. These schemes are grant funded and are located in Broadway, Tintwistle, New Mills and Birch Vale.

Local Transport Plan £22.098m

This is a direct grant allocation for highway maintenance and integrated transport. The Highway Maintenance grant funds a programme of work that is key to effectively managing and maintaining the local highways network, the Council's largest and most visible asset. The Integrated Transport grant provides funding which is vital in providing local people with access to jobs, education, healthcare, shopping, leisure and other services, whilst reducing the impact of social and rural exclusion and improving safety.

ICT Strategy £2.000m

A full capital replacement programme will be developed and maintained, with an expectation that all ICT hardware and software that qualifies as capital expenditure will be replaced over a five year cycle. The initial requirements over the next five years indicate that £2m per annum will be required.

Treasury Management Strategy Report 2019-20

1) Introduction

Treasury Management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.

Treasury Risk Management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2017 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in the Investment Strategy.

2) External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's Treasury Management Strategy for 2019-20.

Following a weak reading in the first quarter of 2018, attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4% and 0.6% in the third quarter. An annual rate of 1.50% is forecast, as the likelihood of a relatively smooth Brexit diminishes. As economic growth had evolved broadly in line with its November Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%. The MPC reiterated that any increases would be at a gradual pace and limited in extent.

The headline rate of inflation (CPIH) was to 2.2% year on year in November 2018, higher than the Bank of England's target of 2%. Labour market data is positive. The ILO unemployment rate was 4.1%. The 3-month average annual growth rate for pay, excluding bonuses, remained at 3.3% in October. Real wages were only up by 1.1% and only likely to have a moderate impact on household spending.

As the US economy has continued to perform well, the Federal Reserve maintained its monetary tightening stance and pushed up its target range for the Fed Funds Rate in December 2018 by 0.25%, to 2.25%-2.50%. The Federal Reserve may be more cautious, with further rises being data dependent in 2019. The fallout from the US-China trade war continues, which combined with tighter monetary policy, risks contributing to a slowdown in global economic activity in 2019.

Despite slower growth in the region, the European Central Bank confirmed the end of its quantitative easing programme, although the timing of the first interest rate increase, is not expected before late 2019.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under 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 being better rated than their non-ringfenced counterparts.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Council's Treasury Management Adviser, Arlingclose, is forecasting two more 0.25% increases during 2019, to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems and that a higher Bank Rate will be a more effective policy weapon, should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite a seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected, based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5%-1.7% and 2.0%-2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events is likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1%.

3) Local Context

On 31 December 2018, the Council held £423.680m of borrowing and £300.213m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	**31.3.19 Estimate £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**
General Fund CFR	456.075	536.210	595.430	597.690	593.240
Less: Other debt liabilities *	-75.356	-71.700	-67.750	-63.590	-59.200
Loans CFR	**380.719**	**464.510**	**527.680**	**534.100**	**534.040**
Less: External borrowing **	299.944	286.624	277.474	272.899	272.899
Internal borrowing	**80.775**	**177.886**	**250.206**	**261.201**	**261.141**
Loans CFR	380.719	464.510	527.680	534.100	534.040
Less: Usable reserves	-307.491	-222.063	-172.299	-141.651	-128.571
Less: Working capital	-37.157	-37.157	-37.157	-37.157	-37.157
New borrowing	**36.071**	**205.290**	**318.224**	**355.292**	**368.312**

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.

** shows only loans to which the Council is committed and excludes optional refinancing.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR because of its capital programme. Investments are forecast to fall to £81.334m as capital receipts are used to finance capital expenditure and reserves are used to finance the Revenue Budget.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2019-20.

4) Borrowing Strategy

The Council currently holds £423.680m of debt, an increase of £44.588m on the previous year, as part of its long term strategy for funding previous years' capital programmes and short term operational cash-flow management. The balance sheet forecast in Table 1 shows that the Council does not expect to need to borrow in 2019-20. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £655.000m.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

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

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs, by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019-20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2019-20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: 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 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 (except Derbyshire Pension Fund);
- capital market bond investors;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues; and
- D2N2 Local Economic Partnership

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

- Leasing;
- hire purchase;
- Private Finance Initiative;
- sale and leaseback.

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

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

LOBOs: The Council holds £5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £5m of these LOBOs have options during 2019-20, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5m.

Short-term and variable rate loans: These loans leave the Council exposed 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.

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

5) Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, the Council's investment balance has ranged between £257.294m and £394.793m. These balances are expected to fall in 2019-20.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

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.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified into higher yielding asset classes, with £70m currently invested in strategic pooled investments.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in Tables 2a and 2b below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2a: Approved investment counterparties and limits (County Fund)

Credit rating	Banks unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£30m 5 years	£30m 20 years	£30m 50 years	£10m 20 years	£10m 20 years
AA+	£30m 5 years	£30m 10 years	£30m 25 years	£10m 10 years	£10m 10 years
AA	£30m 4 years	£30m 5 years	£30m 15 years	£10m 5 years	£10m 10 years
AA-	£30m 3 years	£30m 4 years	£30m 10 years	£10m 4 years	£10m 10 years
A+	£30m 2 years	£30m 3 years	£30m 5 years	£10m 3 years	£10m 5 years
A	£30m 13 months	£30m 2 years	£30m 5 years	£10m 2 years	£10m 5 years
A-	£30m 6 months	£30m 13 months	£30m 5 years	£10m 13 months	£10m 5 years
None	£1m 6 months	n/a	£30m 25 years	Individual Cabinet Approval	£10m 5 years
Other Bodies (Non-Corporate)		Individual Cabinet Approval			
Strategic Pooled funds and real estate investment trusts (REIT)		£30m per fund or trust			
Money Market Funds		£30m per fund			

Table 2b: Approved investment counterparties and limits (Pension Fund)

Credit rating	Banks unsecured	Banks secured	Government
UK Govt	n/a	n/a	£ Unlimited 13 months
AAA	£10m 13 months	£20m 13 months	£20m 13 months
AA+	£10m 13 months	£20m 13 months	£20m 13 months
AA	£10m 13 months	£20m 13 months	£20m 13 months
AA-	£10m 13 months	£20m 13 months	£20m 13 months
A+	£10m 13 months	£20m 13 months	£20m 13 months
A	£10m 13 months	£20m 13 months	£20m 13 months
A-	£10m 6 months	£20m 13 months	£20m 13 months
None	£1m 6 months	n/a	£20m 13 months
Money Market Funds (MMF)	£30m per fund		

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below:

County Fund: It is requested the existing additional overnight limit of £30m is maintained.

D2N2: It is requested the existing overnight limit of £1m is increased back to £10m.

Derbyshire Developments Ltd: It is requested the existing overnight limit of £1m is reduced to £0.1m.

Pension Fund: It is requested the existing additional overnight limit of £20m is maintained.

Pension Fund Currency Accounts US$/€: Any receipts are cleared to Nil by the following working day.

Pension Fund Custodian Accounts:

BNP Paribas (In House Account): It is requested the existing limit of £30m is maintained.

BNP Paribas (Wellington): It is requested the existing limit of £20m (US$ equivalent) is amended to 5% of assets under management (approximately £25m).

BNY Mellon: It is requested the existing limit of £1m for the former custodian is maintained.

LGPS Central:

The Derbyshire Pension Fund joined the Local Government Pension Scheme (LGPS) Central Pool from 1 April 2018.

DCC Pension Fund re LGPS Central Trading Account: It is requested that a cash limit of 5% of assets under management (approximately £50m) is approved.

DCC Pension Fund re LGPS Central Dividend Account: Dividends received are held in this account until transferred to Lloyds on a monthly basis. It is recommended that a limit of £10m is approved.

Credit rating: Investment limits are set 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, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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

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

Government: 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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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

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

Real Estate Investment Trusts (REITs): Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile, especially as the share price reflects changing demand for the shares, as well as changes in the value of the underlying properties.

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

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 analysis 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 otherwise meet the above criteria.

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

Investment limits (County Fund): The Council's revenue reserves available to cover investment losses are forecast to be £39.879m at 31 March 2019. In order to minimise risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government or Lloyds Bank (operational bank accounts)) will be £30 million and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits (Pension Fund): The Pension Fund's cash balance is forecast to be £184.000m at 31 March 2019. In order to minimise risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government, BNY Paribas (custodian) or Lloyds Bank operational bank accounts as previously detailed) will be £30m and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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

Table 3a: Investment limits (County Fund)

	Cash limit
Any single organisation or group of organisations under the same ownership, (except for the UK Central Government or organisations with specific Cabinet approval)	£30m each
UK Central Government	Unlimited
Other bodies with specific Cabinet approval	Unlimited
Negotiable instruments held in a broker's nominee account	£100m per broker
Foreign countries	£50m in total
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£100m in total
Money market funds	£200m in total
Real estate investment trusts	£50m in total

Table 3b: Investment limits (Pension Fund)

	Cash limit
Any single organisation or group of organisations under the same ownership, except the UK Central Government	£30m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£100m per broker
Foreign countries	£50m in total
Unsecured investments with building societies	£50m in total
Money market funds	£200m in total

6) Treasury Management Indicators

The Council measures and manages its exposures to Treasury Management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating: County Fund Pension Fund	 A A

Liquidity (Option 1): – The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
County Fund: Total cash available within 3 months Pension Fund: Total cash available within 1 month	 £30m £60m

Liquidity (Option 2) –: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Liquidity risk indicator	Target
County Fund: Total sum borrowed in past 3 months without prior notice	£30m

The County Fund can use either Liquidity risk indicator as appropriate.

The Pension fund must use Liquidity risk indicator (Option 1) as it does not borrow.

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2.0m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2.0m

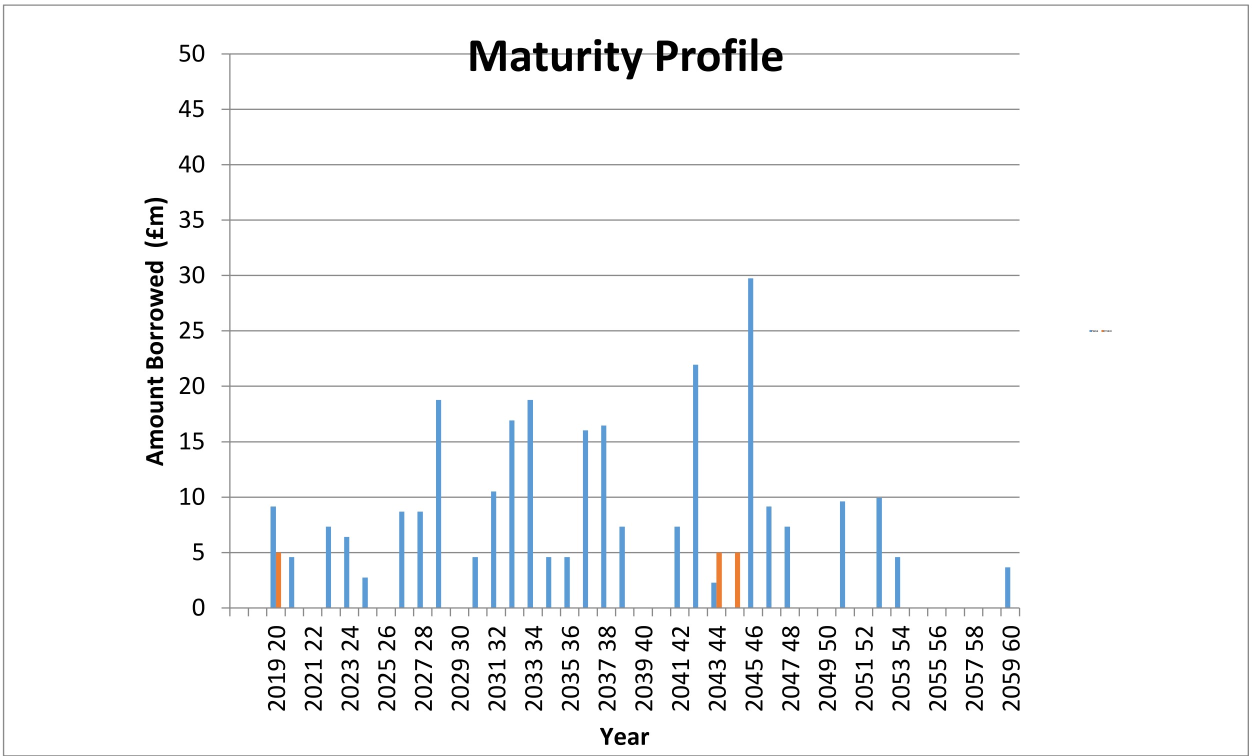
The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The revenue impact of a 1% fall in rates assumes negative interest rates. The calculation is based on an average investment balance of £200m (excluding strategic pooled funds and non-treasury investments).

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and within 20 years	40%	10%
20 years and within 30 years	40%	10%
30 years and above	40%	0%

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. All LOBO option dates are potential repayment dates.

The Authority's maturity profile at 31 March 2019 is shown below. A good spread of maturities is desirable. The average redemption is £8.2m per year over the next 35 years. The maximum redemption is £29.7m in 2045-46. The average duration of all the Authority's loans is approximately 18 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.



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 long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond each year end (including strategic pooled funds & non-treasury investments)	£150m	£125m	£100m

Related Matters

The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty 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, including those present in pooled funds and forward starting transactions, 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.

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, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s Treasury Management activities, the Director of Finance & ICT believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2019-20 is £6.000m, based on an average investment portfolio of £300m at an interest rate of 2%. The budget for debt interest paid in 2019-20 is £13.500m, based on an average debt portfolio of £287m at an average interest rate of 4.68%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance & ICT, having consulted the Cabinet Member for Council Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic and Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	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	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment and Debt Portfolio Position

	31 Dec 2018 **Actual Portfolio £m**	31 Dec 2018 **Average Rate %**
External Borrowing:		
Public Works Loan Board	271.624	4.69
Local authorities	54.000	0.68
Loans from banks	15.000	4.63
Other loans (D2N2)	7.000	0.75
Total External Borrowing	**347.624**	**4.00**
Other long term liabilities		
PFI	71.039	
Finance Leases	4.846	
Transferred Debt	0.171	
Total Other Long Term Liabilities	**76.056**	
Total Gross External Debt	**423.680**	
Treasury Investments:		
Banks & building societies	40.251	1.00
Government (incl. local authorities)	151.510	1.05
Registered Providers	10.000	1.78
Money Market Funds	25.000	0.75
Total Deposits:	**261.414**	**1.02**
Bonds	4.772	3.25
Equities UK	9.059	7.71
Equities Global	4.571	2.53
Multi Asset	24.000	3.36
Property	24.631	4.26
Total Strategic Pooled Funds	**67.033**	**4.22**
Total treasury investments	**300.214**	**1.83**
Net Debt	**123.466**	

Investment Strategy Report 2019-20

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019-20, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second and third of these broad purposes.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, leads to a cash surplus, which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of Treasury Management investments is expected to fluctuate between £140m and £275m during the 2019-20 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2019-20 for Treasury Management investments are covered in the Treasury Management Strategy, available here:

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, local regeneration partners and local healthcare providers, to stimulate local economic growth and to support local services.

£0.500m - Derbyshire Developments Ltd – to provide local housing solutions for local people. Contribution of £0.028m per annum.

£11.390m - Buxton Crescent & Thermal Spa Co Ltd – to regenerate Buxton Crescent by redeveloping a derelict Grade I listed building at Buxton Crescent into a spa hotel. This will boost the economy and tourism in Buxton and the High Peak area. Contribution of £0.530k per annum when completed.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Each loan requires individual Cabinet approval.

Table 1: Loans for service purposes in £ millions

Category of borrower	**31 March 2018 actual**			**2019-20**
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiaries	0.500	0.000	0.500	0.500
Housing	0.250	0.000	0.250	0.000
Regeneration	1.645	0.051	1.594	11.390
TOTAL	**2.395**	**0.051**	**2.344**	**11.890**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018-19 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by:

Derbyshire Developments Ltd – the authority provided a working capital facility for start- up funding to enable recruitment of staff to identify surplus Council land that were potential sites for residential housing development. Derbyshire Developments Ltd is a wholly owned subsidiary of Derbyshire County Council. The Director of Finance & ICT and the Director of Property were both appointed as company directors to facilitate close financial control and robust project monitoring. The loan meets State Aid requirements.

Derbyshire Developments Ltd - The risk of loss based upon an Arlingclose non-rated corporate estimate of 3.1% on the current loan amount outstanding of £0.500m, is £0.016m.

Buxton Crescent & Thermal Spa Co Ltd – the Council agreed a development loan to renovate and refurbish the Grade 1 listed building at The Crescent Buxton into a 5* luxury hotel and spa. The development would regenerate Buxton Crescent and provide a welcome boost to the local economy and tourism.

Buxton Crescent & Thermal Spa Co Ltd submit a monthly utilisation request for funding based on works completed. David Fairbanks from Gleeds Advisory Ltd is contracted by the Council to provide an expert and independent view to investigate and confirm the value of the works done. His report is submitted to the Director of Property for their approval and authorisation for Technical Finance to make the loan payment. The loan meets Sate Aid requirements.

Buxton Crescent & Thermal Spa Co Ltd - The risk of loss based upon an Arlingclose non-rated corporate estimate of 3.1%, on the current loan amount outstanding of £5.919m, is £0.183m.

D Hive Ltd - (a wholly owned subsidiary of the University Hospitals of Derby and Burton NHS Foundation Trust). The proposed loan amounting to £2.4m will be subject to a detailed assessment prior to any formal approval. The loan will meet State Aid requirements.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

None - the residual Local Authority Mortgage Scheme was repaid in May 2018.

Capacity, Skills and Culture

Elected members and statutory officers: Elected members receive an annual training session from the Director of Finance & ICT on Treasury Management (including non-treasury investments).

The Director of Finance & ICT holds semi-annual meeting with the Council's Treasury Management advisors to discuss Treasury Management Strategy options.

Commercial deals: The Director of Finance & ICT and the Treasury Management Accountant are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: The Council's corporate governance arrangements are fully detailed in the Treasury Management Manual.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 2: Total investment exposure

Total investment exposure	**31.03.2018 Actual £m**	**31.03.2019 Forecast £m**	**31.03.2020 Forecast £m**
Treasury management investments	264.047	205.043	143.193
Service investments: Loans	2.395	5.774	11.890
TOTAL INVESTMENTS	**266.442**	**210.817**	**155.083**
Commitments to lend	9.495	6.116	0.000
TOTAL EXPOSURE	**275.937**	**216.933**	**155.083**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing

Investments funded by borrowing	31.03.2018 Actual £m	31.03.2019 Forecast £m	31.03.2020 Forecast £m
Treasury management investments	181.272	71.902	0.000
Service investments: Loans	2.395	9.432	16.090
TOTAL FUNDED BY BORROWING	**183.667**	**81.334**	**16.090**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2017-18 Actual %	2018-19 Forecast %	2019-20 Forecast %
Treasury management investments (excluding *)	0.93	1.02	1.15
*Strategic Pooled Funds	4.08	4.25	4.25
Service investments: Loans	4.54	4.74	4.72
ALL INVESTMENTS	**1.20**	**1.71**	**2.32**

Table 5: Other investment indicators

Indicator	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
Debt to net service expenditure ratio	1:1.14	1:1.35	1:1.40
Service Loans income to net service expenditure ratio	1:20	1:51	1:30

Appendix 4

Capital Strategy

1 Purpose and Aims

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.

The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, the capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

This capital strategy sets out a framework for the self-management of capital finance and examines the following areas:

- Capital expenditure and investment plans;
- Prudential Indicators;
- External debt; and
- Treasury Management

2 Objectives of the Strategy

The capital budgets should support the key priorities laid out in the Council's Corporate Plan. Each capital proposal is required to clearly demonstrate the project links to the Council's priorities, which are:

1. Work efficiently and effectively
2. Unlock economic growth and access to economic opportunities
3. Invest in employment and skill
4. Repair and improve the condition of Derbyshire roads
5. Improve accessibility in rural and vulnerable communities
6. Improve social care
7. Transform services for people with learning difficulties
8. Keeping children and adults safe
9. Be a good corporate parent for children in our care

10. Help children and young people get the best start
11. Encourage healthy lifestyles
12. Champion local communities
13. Support local library services
14. Protect local people and communities
15. Promote Derbyshire as a global cultural and tourist destination
16. Protect and enhance the natural environment

3 Key Projects

Within the Council Plan are a number of key projects which are having, or will have an impact on the Council's Capital Programme:

- A £30 million Care Programme to provide new modern care homes for the county's older people.
- Work with partners to deliver the One Public Estate Programme making more efficient use of the Council's properties and assets.
- Improve transport and highways infrastructure and develop the key cycle network to connect local people to jobs and leisure opportunities.
- Deliver the A61 Growth Corridor Strategy to support major housing and employment growth.
- Ensure Derbyshire homes and businesses get full Broadband coverage.
- Tackle the state of the county's roads and invest an additional £6 million into road maintenance.
- Develop plans to build a new bypass in Ashbourne.
- Build a new library in Belper.
- Deliver a large scale waste treatment and education centre at Sinfin Lane in Derby.
- Work with communities to increase their resilience to flooding.

4 Approach to Capital Investment

Derbyshire County Council's Capital Strategy defines and outlines the Council's approach to capital investment and is fundamental to the Council's financial planning processes. It aims to ensure that:

- An affordable and sustainable capital programme is delivered.
- Use of resources and value for money is maximised.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Access to sufficient long term assets to provide services are acquired and retained
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged
- An appraisal and prioritisation process for new schemes is robust.
- Capital expenditure contributes to the achievement of the Council's strategic plan.

5 Commercial Activity and Investment Property

The CIPFA defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

The Council does not currently borrow to fund these type of activities.

6 Loans

The Council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Cabinet. All loans are subject to close, regular monitoring.

For further details, refer to the Investment Strategy above.

7 Governance Arrangements

Capital Programme Approvals

The Council's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council.
- Prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Each scheme must be under the control of a responsible person/project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process

as other capital expenditure before it can be formally incorporated into the capital programme.

Capital Programme Bodies

The main internal bodies that are responsible for the governance and management of the capital programme are the Full Council, Cabinet, Cabinet Member and the Capital Strategy Group.

- **Full Council:**
  Approves the Capital Programme as part of the Annual Budget Report within the strategic boundaries set by the Council.

- **Cabinet/Cabinet Member:**
  Approves additional schemes into the Capital Programme and cost variations to various schemes

  Cabinet also receives the capital monitoring reports.

- **Capital Strategy Group:**
  This is a cross-service group of officers with a finance, service and property management background.

  It is responsible for ensuring that the Council has a clear and cohesive strategy for managing its physical assets and to oversee the development and delivery of the Council's Capital Programme in support of that strategy.

8 Funding Streams

The Council's Capital Programme is funded from a mix of sources including:-

- **Prudential Borrowing**
  The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

- **External Grants**
  The largest form of capital funding comes through as external grant allocations from Central Government departments, such as the Department for Transport and Department for Education.

- **Section 106 and External Contributions**
  Elements of the Capital Programme are funded by contributions from private sector developers and partners. Growth in Derbyshire has resulted in Section 106 contributions from developers accounting for significant elements of funding of the Capital Programme in recent years.

- **Revenue Funding**
  The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, the impact of austerity on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

- **Capital Receipts**
  The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

9 Key strategies impacting on the Council's Capital Strategy

The three key strategies in place that will significantly influence the Council's Capital Programme over the medium term:

(a) Property Asset Management Framework

The strategic aim of the Property Asset Management Framework is to ensure that the Council has appropriate, cost effective buildings from which to deliver services.

The aim of the strategy is to give clarity to the way we manage our assets, including:

- The organisational arrangements for asset management including polices and protocols.
- The corporate processes for decision making in relation to our assets – Corporate Governance.
- The performance measures and monitoring.
- How we manage and maintain our data on land and buildings.

Property Policies and Protocols

There are a number of policies and protocols that need to be in place to deliver strategic asset management effectively:

- Property Acquisition Protocol
- Property Disposal Protocol
- Community Asset Transfer Protocol
- Lettings Protocol
- Process for departments to follow when they have a property need
- Process for departments to follow when they wish to vacate a property
- Decommissioning Process
- Property Review Process

(b) ICT Strategy

The Council recognises that ICT is a key enabler of service delivery. The strategy outlines how ICT will deliver new technologies to support the ambitions and outcomes of the Council Plan and Derbyshire's approach to becoming an Enterprising Council. In order to achieve this, a five year replacement capital programme will be developed, and initial requirements over this period are likely to be around £10m:

Summary of Strategy Deliverables

- Changing Service Models
- ICT Governance Structure
- Mobile and Agile Workforce
- Digital by Default
- Workforce ICT Competencies
- Corporate and Business systems
- ICT Infrastructure Delivery
- Responsible Data management

(c) Highways Infrastructure Asset Management Strategy

Highway infrastructure is the largest and most visible asset the Council is responsible for. With a gross replacement cost of £11.7bn, it is fundamental to the delivery of the Council Plan. It includes over 5,000km of road network, as well as supporting public transport through cycle routes, public rights of ways, canals, bus stations and shelters, on-street parking, school buses and vehicle fleet. It reflects the character and quality of the local areas that it serves and makes an important contribution to the wider Council priorities, including regeneration, social inclusion, education, employment, recreation and health. In order to deliver these aims and strengthen local communities, it is crucial that it is maintained to enable safe, reliable and sustainable journeys.

There are a variety of factors that need to be taken into consideration when determining the Council's expectations for the highway service:

- Meeting national policy, guidance and codes of practice.
- Delivering Council goals – including maintenance policy and Local Transport Plan.
- Supporting Council Vision.
- Complying with legal duties, including Highways Act 1980, Traffic Management Act 2004 and The Equalities Act 2010.
- Enabling effective whole Government accounts and local financial reporting.
- Managing Stakeholder expectations – the Council readily engages with stakeholders through Elected Members, the National Transport and Public Satisfaction Survey, the DCC website, officer workshops and Midland Service Improvement Group (MSIG).
- Understanding future demands of the highway infrastructure assets.
- Making the best of financially constrained budgets.
- Delivering efficiency and value for money.
- Delivering long term improvements to the condition of the network.
- Providing a safe and reliable network.

The major groups of assets covered by the Strategy are:

- Carriageways
- Footways and Cycleways
- Structures (Bridges/retaining walls)
- Drainage
- Street Lighting
- Electronic Traffic Management
- Street Furniture (Traffic Signs/Vehicle Restraint Systems etc)

The major source of capital funding for the network is from the Local Transport Plan grant from central government which is approximately £22m per annum.

10 2019-20 Prudential Indicators for Capital Finance

This section of the Capital Strategy sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

Information and Advice

The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA and also take advice from the Section 151 Officer.

The Executive Summary of the Code states that "The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice."

The Code sets out a number of prudential indicators designed to support and record local decision making and it is the duty of the Chief Financial Officer (the Council's Section 151 Officer) to ensure that this information is available to Members when they take decisions on the Council's capital expenditure plans and annual budget. Key issues to be considered are:

- Affordability (e.g. implications for Council Tax).
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing).
- Value for money.
- Stewardship of assets (Service objectives (e.g. alignment with the Council's Strategic Plan).
- Practicality (e.g. whether the capital plans are achievable).

Affordability

The fundamental objective in the consideration of the affordability of the Council's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the Council remains within sustainable limits.

In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, income and expenditure forecasts.

The costs of financing capital expenditure are:

- Interest payable to external lenders less interest earned on investments.
- Amounts set aside for repayments of amounts borrowed (including repayments of amounts relating to PFI schemes and other finance lease liabilities).

Table 1 – Actual and Estimates of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital against the net revenue stream, based on the Capital Programme.

	2017-18 Actual £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Financing costs of CFR	**37.93**	**39.67**	**45.52**	**48.41**	**48.64**
Net Revenue stream in DSG	**897.70**	**878.60**	**866.90**	**817.20**	**800.10**
Percentage	**4.2%**	**4.5%**	**5.3%**	**5.9%**	**6.1%**
Net Revenue stream excluding DSG	**494.10**	**503.20**	**519.50**	**494.80**	**502.70**
Percentage	**7.7%**	**7.9%**	**8.8%**	**9.8%**	**9.7%**

Prudence and Sustainability

The Prudential Code requires that the Council shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable.

In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact on the Council's overall fiscal sustainability.

The Council is required to make reasonable estimates of the total capital expenditure that it plans to incur in the forthcoming financial year and at least the following two financial years.

As part of the Prudential Code arrangements the authority needs to calculate the Capital Financing Requirement. This figure covers capital expenditure which has not yet been permanently financed through the revenue account.

The Code also states that "In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years." This is a key indicator of prudence.

Table 2 – Estimates of Capital Expenditure and Capital Financing Requirement

The relevant figures from the 2017-18 Accounts are as follows.

	2017-18 Actual £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Capital Expenditure	**106.35**	**172.95**	**193.73**	**81.05**	**47.51**
Funding Sources:					
Borrowing	2.38	94.95	76.34	20.78	14.38
Capital receipts	1.40	21.88	13.06	7.07	0.00
Capital grants	91.70	37.91	98.50	50.94	30.50
Revenue	10.87	18.21	5.83	2.27	2.63
Total CFR at year end	**455.91**	**536.21**	**593.43**	**597.69**	**593.24**
Net movement in CFR	12.24	80.30	59.23	2.25	-4.45
Minimum Revenue Provision	13.59	14.65	17.11	18.52	18.83
PFI & leases in CFR	75.45	71.70	67.75	63.59	59.20
PFI & Leases in MRP	3.25	3.95	4.16	4.39	4.64

As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2019-20 does not, except in the short term, exceed £601.08m (i.e. the estimated CFR for 2019-20).

External Debt

The Local Government Act 2003 requires the Council to set two borrowing limits for next year and the following two years with respect to external borrowing.

Operational Boundary –have to be set for both borrowing and long term liabilities.

This measure encompasses all borrowing and is used in-year as a tool for monitoring the Council's prudent borrowing requirements. The operational boundary is calculated by taking account of existing borrowing and long term liabilities, planned new borrowing, net change in long term liabilities and any amounts set aside for repayment of debt.

Authorised Limit – this higher measure, is the upper limit on the level of gross indebtedness which must not be breached without Council approval.

The Operational Boundary for external debt for the next three years is built up from the existing level of external borrowing, which was £299.95m and the level of relevant liabilities (including finance lease liabilities), which was £76.06m, on the Balance Sheet at 31 March 2018.

The Authorised Limit for 2019-20 is to be £655m and the Operational Boundary is to be £625m.

Table 3 – Authorised Limit for External Debt

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Authorised limit for external debt	**655**	**658**	**653**
Operational boundary for external debt	**625**	**628**	**623**
Borrowing	**277**	**273**	**273**
PFI liabilities	**68**	**64**	**59**
Total	**345**	**337**	**332**

Both the Authorised Limits and Operational Boundaries are less than the Capital Financing Requirement because best practice in treasury management means that actual borrowing is below the notional underlying borrowing requirement.

11 Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management Advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.