Gravesham Borough Council

Council

Tuesday, 26 February 2019

Dear Councillor

You are advised that the attached documents form part of the main agenda papers for this meeting.

Please ensure you bring them with you to the meeting.

Yours faithfully

S Walsh
Service Manager (Communities)

List of documents attached

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Gravesham Borough Council

Report to:	Full Council
Date:	26 February 2019
Reporting officer:	Director (Corporate Services)
Subject:	Treasury Management Strategy and Capital Strategy 2019/20

PURPOSE AND SUMMARY OF REPORT:

To approve the Treasury Management Strategy and associated Annual Investment Strategy and the Minimum Revenue Provision Policy for 2019/20 along with the Capital Strategy for 2019/20.

RECOMMENDATIONS:

1) The Treasury Management Strategy for 2019/20 as set out in Appendix 2 be agreed.

2) Delegated authority be given to the Director (Corporate Services), in consultation with the Chair of the Finance and Audit Committee, to amend the prudential and treasury indicators as necessary as a result of the budget approved by Full Council on 26 February 2019.

3) The Minimum Revenue Provision (MRP) calculation on all new capital expenditure as set out in Section 5 of the Treasury Management Strategy Statement be approved for 2019/20 and beyond in accordance with the Authority's Capital Programme.

4) The Annual Investment Strategy for 2019/20 as set out in Section 14 of the Treasury Management Strategy Statement be agreed

5) The Capital Strategy for 2019/20 as set out in Appendix 3 be agreed.

1. INTRODUCTION

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

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need to the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects.

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

1.5 CIPFA defines treasury management as: "The management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

2. REPORTING REQUIREMENTS

Treasury Management Reporting

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

- **Prudential and treasury indicators and treasury strategy** – The first, and most important report is forward looking

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

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

Capital Strategy

2.2 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare a capital strategy report setting out a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.

2.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

2.4 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Audit Committee.

IMPLICATIONS	APPENDIX 6
LEGAL	As per section 1.13B.67 of the Council's Constitution, the Chief Finance officer has delegated responsibility from Cabinet. "in respect of borrowing and investments to arrange such loans as are legally permitted to meet the Council's borrowing requirements"
FINANCE AND VALUE FOR MONEY	Due to the nature of the report, the financial implications are contained throughout the report. In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within this report. Investment durations do not exceed those as advised by Capita Asset Services credit ratings which are associated with the specific institutions. Where the authority is required to borrow to meet the needs of the authority, officers will seek advice from Capita Asset Services on timings and options in order to ensure the best deal for the authority.
RISK ASSESSMENT	The risks associated with Treasury Management and capital expenditure are detailed within this report.
EQUALITY IMPACT ASSESSMENT	**SCREENING FOR EQUALITY IMPACTS**

SCREENING FOR EQUALITY IMPACTS

QUESTION	ANSWER	EXPLANATION
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	N/A	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?	N/A	

	In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above
CORPORATE BUSINESS PLAN	**Corporate Objective Four – a Sound and Self Sufficient Council**
CRIME AND DISORDER	Treasury Management activities are carried out in accordance with the Treasury Management Strategy and Annual Investment Strategy which minimises the risk of criminal activities. The arrangements to ensure appropriate governance around capital expenditure are set out in the Capital Strategy.

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TREASURY MANAGEMENT STRATEGY

Gravesham Borough Council

2019 - 2020

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1. INTRODUCTION

1.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 covers two main areas:

- Capital Issues

  a. The capital plans and the prudential indicators

  b. The minimum revenue provision (MRP) strategy

- Treasury Management Issues

  a. The current portfolio position

  b. Treasury Indicators: which will limit the treasury risk and activities of the council

  c. The prospects for interest rates

  d. The borrowing strategy

  e. Policy on borrowing in advance of need

  f. Debt rescheduling

  g. The annual investment strategy 2019/20

  h. Credit worthiness policy

  i. Policy on use of external service providers

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

2. TRAINING

2.1 The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training scheduled for 29 January 2019 was cancelled and therefore further training will be arranged following the Local Elections in May 2018.

2.2 The training needs of treasury management officers are periodically reviewed.

3. TREASURY MANAGEMENT CONSULTANTS

3.1 The Council currently uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

3.2 It was the intention of Finance to undertake a full procurement process for treasury management consultancy services in February 2019 to seek to put arrangements in place for a three year period starting 1 April 2018.

3.3 With the uncertainty around the UK leaving the EU and the impact this may have on the requirements for treasury support and advice around this time, coupled with the proximity of the renewal date to financial year-end, it was felt prudent and in the Council's best interest to extend the existing arrangement with Link for a further

18 months (till September 2020) when there will hopefully be more stability in the economic situation of the country. This also enables any future TMSS to be written based on advice and support provided by the incumbent consultant.

3.4 To this end the Director (Corporate Services) has signed a request for exemption from seeking competitive quotations and tenders in accordance with paragraph 3.1 of the Contract Procedure Rules.

3.5 The Council recognises that responsibility for treasury management decisions remains with the organisations at all times and will ensure that undue reliance is not placed upon our external services providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

3.7 Link Asset Services have provided a summary on the economic background. This can be found in Appendix 1.

3.8 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council engages external consultants to provide a valuation report when purchasing an investment property. The consultants will vary depending on the nature of the property.

4. THE CAPITAL PRUDENTIAL INDICATORS 2019/20 TO 2021/22

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

4.2 **Capital Expenditure**. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

4.3 Given where the authority is in the annual budget setting process, the capital estimates on the following page are based on the latest information available. Members are asked to approve the capital expenditure forecasts and also to delegate authority to the Director (Corporate Services) in consultation with the Chair of the Finance and Audit Committee to amend the forecasts and other indicators as necessary in line with the authority's budget which will be discussed and approved by Full Council on 26 February 2019:

Capital Expenditure	**2017/18 Actual £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Non-HRA	2.915	5.846	8.259	7.265	1.268
HRA	12.657	12.290	15.889	19.362	14.381
Commercial activities/ non-financial investments	2.180	13.252	12.122	0.00	0.00
Total	**17.752**	**31.388**	**36.270**	**26.627**	**15.649**

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

Capital Expenditure	**2017/18 Actual £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m/**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Non-HRA	2.915	5.846	8.259	7.265	1.268
HRA	12.657	12.290	15.889	19.362	14.381
Commercial activities/non-financial investments	2.180	13.252	12.122	0.00	0.00
Total	**17.752**	**31.388**	**36.270**	**26.627**	**15.649**
Financed by:					
Capital receipts	0.247	0.927	0.925	0.150	0.150
Grants/Contributions	2.302	5.399	6.475	6.510	0.833
Reserves	5.593	5.309	8.762	6.281	3.785
Revenue	0.048	0.000	0.000	3.396	3.681
Major Repairs Reserve	7.382	6.401	8.221	7.140	7.088
Net financing need for the year	**2.180**	**13.352**	**11.887**	**3.150**	**0.112**

4.5 **The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below**.

Commercial Activities/non-financial investments	**2017/18 Actual £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m/**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Capital Expenditure	2.180	13.352	12.122	0	0
Financing costs	0.000	0.000	0.116	0.000	0.000
Net financing need for the year	2.180	13.252	12.238	0.000	0.000
Percentage of total net financing need %	0.000	0.000	0.948	0.000	0.000

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

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

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

4.9 The Finance and Audit Committee is recommending to Council to approve the CFR projections below:

	2017/18 Actual £m	**2018/19 Estimate £m**	**2019/20 Estimate £m/**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Capital Financing Requirement					
CFR – Non HRA	8.407	10.558	10.394	10.334	10.306
CFR – HRA	88.665	82.336	77.597	79.151	77.679
CFR – Commercial activities/non-financing activities	11.760	24.769	36.148	35.401	34.655
Total CFR	**108.832**	**117.663**	**124.139**	**124.886**	**122.640**
Movement in CFR	**(3.712)**	**8.831**	**6.476**	**0.747**	**(2.246)**

Movement in CFR represented by					
Net financing need for the year (above)	2.181	13.352	11.887	3.150	0.112
HRA contribution to loan repayment	(3.504)	(4.101)	(4.738)	(1.597)	(1.584)
Local Authority Mortgage Scheme (LAMS)	(2.000)	-	-	-	-
Less MRP and other financing movements	(0.389)	(0.420)	(0.673)	(0.806)	(0.774)
Movement in CFR	**(3.712)**	**8.831**	**6.476**	**0.747**	**(2.246)**

4.10 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure shown in paragraph 4.3 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale and proportionate to the Authority's remaining activity.

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

	2017/18 Actual £m	**2018/19 Estimate £m**	**2019/20 Estimate £m/**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Fund Balances / Reserves (HRA and Non-HRA)	(24.385)	(27.052)	(20.718)	(16.115)	(14.200)
Capital receipts	(5.832)	(5.187)	(3.736)	(4.145)	(4.555)
Grants / Contributions	(2.173)	(2.253)	(1.222)	(1.222)	(1.222)
Total core funds	**(32.390)**	**(34.492)**	**(25.676)**	**(21.482)**	**(19.977)**

5. MINIMUM REVENUE PROVISION POLICY

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

5.2 MHCLG regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

5.3 For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure the MRP policy will be

The Regulatory Method - Under the previous MRP regulations MRP was set at a uniform rate of 4% of the adjusted General Fund Capital Financing Requirement (CFR) i.e. adjusted for "Adjustment A" on a reducing balance method. Adjustment A was introduced to coincide with changes to the capital finance system on 1 April 2004 to ensure local authorities were not adversely affected financially by these changes. The Capital Financing Requirement is a measurement of the council's underlying need to borrow.

5.4 From 1 April 2008 for all unsupported borrowing will be:

Asset Life (Equal Instalment Method) – MRP will be based on the estimated life of assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset's life.

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

5.6 If assets are transferred between funds, where the transfer results in an increase in the General Fund CFR, it will be considered whether it is prudent to make an MRP provision on the higher CFR in subsequent years.

5.7 MRP Overpayments – A change introduced by the revised MHCLG MRP Guidance was that the allowance that any changes made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayments made each year. Up until the 31 March 2019 the total VRP overpayments were £16.326m. This is equivalent to the value of HRA self-financing loans that have been repaid since the start of the scheme.

6. BORROWING

6.1 The capital expenditure plans set out in Section 6 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 **The current portfolio position** - The Council's treasury position as at 31 March 2018 and for the position as at 31 January 2019 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/2018	31/03/2018	31/01/2019	31/01/2019
Treasury Investments	**£'000**	**%**	**£'000**	**%**
Banks	2,000	6%	8,000	12%
Building Societies	1,000	3%	-	0%
Money Market Funds	569	2%	16,215	24%
Certificate of Deposits	7,450	24%	17,000	25%
Call Accounts	-	0%	8,000	12%
Total managed in house	**11,019**	**35%**	**49,215**	**71%**
Multi Asset Funds	9,746	31%	9,029	13%
Property Funds	10,335	33%	10,602	15%
Total managed externally	**20,081**	**65%**	**19,631**	**29%**
Total treasury investments	**31,100**	**100%**	**68,846**	**100%**
Treasury External Borrowing				
PWLB	90,082	92%	90,001	92%
Stock Loan	8,000	8%	8,000	8%
Total external borrowing	**98,082**	**100%**	**98,001**	**100%**
Net treasury investments / (borrowing)	**(66,982)**		**(29,155)**	

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

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m/	2020/21 Estimate £m	2021/22 Estimate £m
External Debt					
Debt at 1 April	101.677	98.093	93.911	94.992	84.724
Expected Change in Debt	(3.584)	(4.182)	1.081	(10.268)	(7.072)
Actual gross debt as at 31 March	98.093	93.911	94.992	84.724	77.652
The Capital Financing Requirement	**108.832**	**117.663**	**124.139**	**124.886**	**122.640**
(Under)/Over Borrowing	**(10.739)**	**(23.752)**	**(29.147)**	**(40.162)**	**(44.988)**

6.4 Within the above figures the level of debt relating to commercial activities / non-financial investment is:

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m/	2020/21 Estimate £m	2021/22 Estimate £m
External Debt for Commercial activities / non-financial investments					
Actual debt as at 31 March	0.000	0.000	5.900	0.000	0.000
Percentage of total external debt %	0.000	0.000	6.211	0.000	0.000

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

6.6 The Director (Corporate Services) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

7. TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

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

Operational Boundary	2018/19 Estimate £m	2019/20 Estimate £m/	2020/21 Estimate £m	2021/22 Estimate £m
Debt (including HRA Settlement)	116.200	122.600	123.400	121.100
Other Long Term Liabilities	1.500	1.500	1.500	1.500
Commercial activities / non-financial investments	15.000	30.000	30.000	30.000
Total	**132.700**	**154.100**	**154.900**	**152.600**

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

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

- The Finance and Audit Committee is asked to recommend to Council the following Authorised Limit:

Authorised limit	2018/19 Estimate £m	2019/20 Estimate £m/	2020/21 Estimate £m	2021/22 Estimate £m
Debt (including HRA Settlement)	117.700	124.100	124.900	122.600
Other Long Term Liabilities	1.600	1.600	1.600	1.600
Commercial activities / non-financial investments	20.000	35.000	35.000	35.000
Total	**139.300**	**160.700**	**161.500**	**159.200**

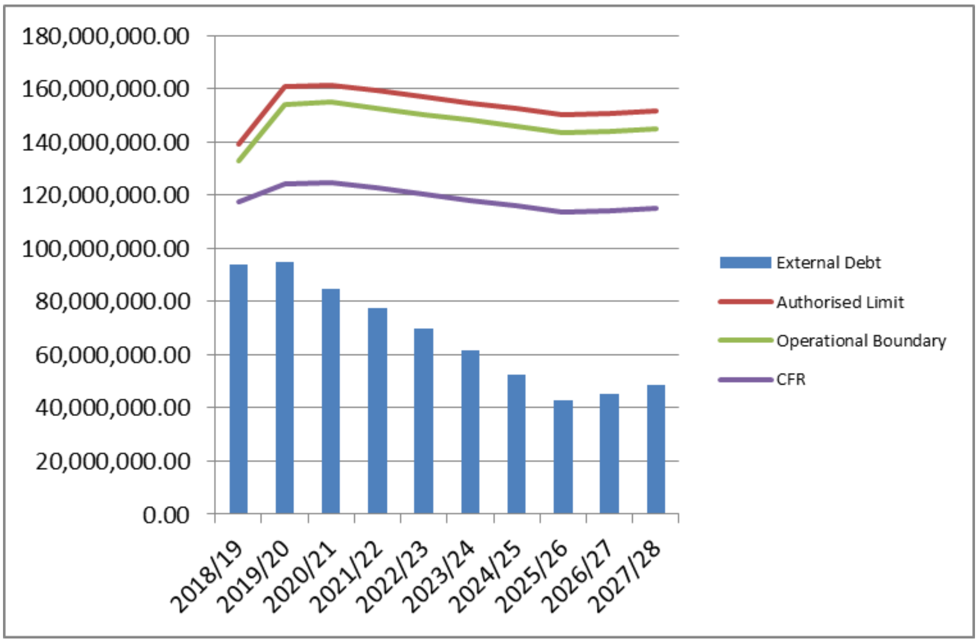
7.3 In October 2018, the Prime Minister announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29 October 2018. The current position against this historic limit is currently:

HRA Debt Limit	2018/19 Estimate £m	2019/20 Estimate £m/	2020/21 Estimate £m	2021/22 Estimate £m
HRA Debt Cap	117.900	117.900	117.900	117.900
HRA CFR	88.336	77.598	77.695	77.227
HRA Headroom	29.564	40.302	40.205	40.673

7.4 The operational boundary and authorised limits set out above are based on revenue expenditure detailed within the Medium Term Financial Plan and HRA Business Plan as well as the capital programme as reported in the General Fund and HRA Budget Setting Reports presented to Cabinet on 4 January 2019. Any amendments required as a result of significant additional expenditure in relation to the Heritage Quarter East and West developments will be reported as part of the Member reporting process at the appropriate time.

7.5 The table below and the following pictorial representation of the Council's Operational and Authorised limits against the Capital Finance Requirement and External Debt levels for the period 2017/18 to 2027/28.

CAPITAL FINANCING REQUIREMENT											
	Actual 2017/18 £m	Est 2018/19 £m	Est 2019/20 £m	Est 2020/21 £m	Est 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m	Est 2027/28 £m
HRA CFR	88.67	82.34	77.60	79.15	77.68	76.12	74.59	73.10	71.63	72.68	74.62
GF CFR	8.41	10.56	10.39	10.33	10.31	10.30	10.30	10.30	10.30	10.30	10.29
Commercial Activity / non financial instruments	11.76	24.77	36.15	35.40	34.66	33.91	33.16	32.42	31.67	30.92	30.18
Total CFR	**108.83**	**117.66**	**124.14**	**124.89**	**122.64**	**120.33**	**118.06**	**115.81**	**113.60**	**113.90**	**115.09**
External Borrowing	98.09	93.91	94.99	84.72	77.65	69.89	61.52	52.51	42.83	45.36	48.83
Other Long Term Liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Debt	**98.09**	**93.91**	**94.99**	**84.72**	**77.65**	**69.89**	**61.52**	**52.51**	**42.83**	**45.36**	**48.83**
Authorised Limit	128.10	139.30	160.70	161.50	159.20	156.90	154.70	152.40	150.20	150.50	151.70
Operational Boundary	108.80	132.70	154.10	154.90	152.60	150.30	148.10	145.80	143.60	143.90	145.10



8. PROSPECTS FOR INTEREST RATES

8.1 Link Asset Services are the Council's current treasury advisor and part of the their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

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

8.2 Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

9. THE BORROWING STRATEGY

9.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

9.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Director (Corporate Services), will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

9.3 Any decisions will be reported to the Finance and Audit Committee at the next available opportunity.

10. POLICY ON BORROWING IN ADVANCE OF NEED

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

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

11. DEBT RESCHEDULING

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

11.2 The reasons for rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings

- helping to fulfil the treasury strategy

- enhancing the balance of the portfolio

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

11.4 Any rescheduling will be reported to the Finance and Audit Committee, at the earliest meeting following its action.

12. MUNICIPAL BONDS AGENCY

12.1 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

13. AFFORDABILITY PRUDENTIAL INDICATORS

13.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Finance and Audit Committee are asked to recommend the following indicators to Full Council for approval:

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

13.3 2019/20 will be the final year in which we operate a single loans pool, therefore it is only possible to show the ratio of financing costs to net revenue stream for the commercial activity/non-financial investment from 2020/21. Until this point the impact of the borrowing is included within the Non-HRA figure in the table below.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non- HRA	3.67	2.99	7.14	4.62	4.09
HRA	23.43	25.63	27.91	15.12	14.21
Commercial activities / non-financial investments				13.57	13.57
Total	17.89	18.30	21.52	12.30	11.54

13.4 Commercial Activity – The following local indicator identifies the trend in income from commercial properties purchased through the Property Acquisition Programme in relation to net revenue spend.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Income from Commercial activity £m	0.687	1.106	1.177	1.285	1.285
Net Revenue Spend £m	12.300	12.403	11.472	11.651	12.144
Ratio of income of net revenue spend %	5.59	8.92	10.26	11.03	10.58

13.5 **HRA ratios** – the following indicators identifies the trend of HRA debt in relation to revenue income and HRA debt per dwelling.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
HRA debt £m	89.920	85.819	81.081	82.634	81.162
HRA debt cap £m	117.900	117.900	117.900	117.900	117.900
HRA revenue income £m	28.579	27.531	27.234	28.353	29.279
Ratio of income of net revenue spend %	31.783	32.080	33.589	34.312	36.075
Number of HRA dwellings	5,686	5,679	5,699	5,717	5,687
Debt per dwelling £	15,814	15,112	14,227	14,454	14,271

13.6 **Maturity Structure of Borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity Structure of fixed interest rate borrowing 2019/20		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

Maturity Structure of variable interest rate borrowing 2019/20		
	Lower	***Upper***
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

14. ANNUAL INVESTMENT STRATEGY 2019/20

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

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

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

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

14.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this

consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30m of the total investment portfolio, (see paragraph 15.1).

6. **Lending limits**, (amounts and maturity), for each counterparty is set at £8m and in accordance section 14 and appendix 2.

7. **Transaction limits** for groups, counterparties and money market funds are set at £8m.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 15.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 15.1).

10. This authority has engaged **external consultants**, (see paragraph 3.1), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will consider the implications of investment instruments which could result in a capital loss being charged to the General Fund at year end. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English local

authorities time to adjust their portfolio of all pooled investments or build sufficient reserves by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018.

14.5 However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 16.8). Regular monitoring of investment performance will be carried out during the year.

15. CREDITWORTHINESS POLICY

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

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

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

Colour/ long term rating	Maximum Period of investment
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (nationalised or semi nationalised UK Banks)
Red	6 Months
Green	100 days
No Colour	Not to be used

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

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

15.5 All credit ratings will be monitored on a daily basis by officers within the Finance Department. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap market against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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

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

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

16. OTHER LIMITS

16.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, group and sectors.

- **Non-Specified Investment Limit –** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30m of the total investment portfolio.
- **Country Limits –** As in previous years the Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AAA, as determined by at least two of the three rating agencies (Fitch, Moody's or Standard and Poor's). The list of countries that currently qualify using the credit criteria as at the date of this report are shown in Appendix 3. Officers will amend this list during the year should ratings change in accordance with this policy.
- **The UK Sovereignty Rating -** Previous Treasury Management Strategy Statements recommended that the UK should be an exemption from the

above country limits and that officers would continue to place investments with counterparties within the UK provided that the sovereign rating remained above AA-, in consultation with the Section 151 Officer, who (under the Constitution) can take all necessary action in respect of the management of the Council's investments to ensure their security is maintained.

- **Other Limits -** In addition:

  a. no more than £16m will be placed with any non-UK country at any time;

  b. limits in place above will apply to a group of companies;

  c. sector limits will be monitored regularly for appropriateness.

17. INVESTMENT STRATEGY

17.1 **In-house Funds -** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

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

Year	Bank Rate Forecast
2018/19	0.75%
2019/20	1.25%
2020/21	1.50%
2021/22	2.00%

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

17.4

Year	
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

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

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

Maximum principal sums invested > 365 days			
	2019/20 **£m**	**2020/21** **£m**	**2020/21** **£m**
Principal sums invested > 365 days	20.000	20.000	20.000

17.6 Whilst the Council has placed £10m with three Property Funds and a further £10m with three Multi Asset Funds with a view to holding the funds for a longer term, due to the funds liquidity they are not taken into account for the purposes of the above indicator. The indicator applies to funds invested for a fixed period only.

17.7 As at xx, the Council held no investments that matured in excess of 1 year.

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

17.9 **Investment Risk Benchmark -** The Council will use an investment benchmark to assess the investment portfolio of 3 month LIBID.

18. END OF YEAR INVESTMENT REPORT

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

19. SERVICE INVESTMENTS

19.1 The Investment Strategy recognises that the Council may, from time to time, make investment decisions are part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment, rather than a treasury managment investment, and will therefore fall outside of the specified/non specified investment categories.

19.2 At the time of preparing this report the Council had interests in two such service investments:

- Municipal Bonds Agency (MBA) - In January 2015, a report to Cabinet from the then Assistant Director (Finance) outlined proposals by the Local Government Association (LGA) to set up the MBA with the aim that the Agency would be able to provide councils with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB). The Assistant Director (Finance), having liaised with the LGA (and in consultation with the Leader and the Chief Executive), concluded that the Council along with many other local authorities should become a member of the MBA and therefore £20,000 was paid in February 2015 towards the Agency's estimated start-up costs of £1m. It is anticipated that there will, at some point, be a financial return (to be remunerated at commercial rates) for these capital subscriptions to the Agency's establishment costs. The setting up of the MBA continues to progress and a Proof of Concept study is currently being undertaken. Under the Constitution, the Director of Corporate Services has delegated responsibility for the execution and administration of treasury management decisions in accordance with the agreed Treasury Management Strategy. Therefore should the Council have a need to borrow in future then use of MBA (if available at the time) will be considered.

- Commercial acquisitions – In previous Treasury Management Strategy Statements, updates on commercial properties was reported under the Service Investments section of the report. Due to the revised reporting reqiuirements from MHCLG, the impact of such investments are incorporated throughout this report and the Capital Strategy provides a longer term focus of such investments.

20. OTHER TREASURY ACTIVITY

20.1 A long term cashflow model continues to be maintained and a summary of this can be found at Appendix 8 and Appendix 9 to this report. Two graphs have been presented following requests made at the previous Finance and Audit Committee. The first shows the current long term cashflow along with key events such as the repayment of the £8 million stock issue loan in May 2020. The current cashflow has been amended, to reflect the changes in the Medium Term Financial Plan and the HRA Business Plan. The second shows the current long term cashflow against that which was presented to the previous Finance and Audit Committee to enable Members to see the movement that has occurred as a result of the changes detailed above.

21. SCHEME OF DELEGATION

21.1 The Treasury Management Scheme for Delegation is outlined in Appendix 4.

22. ROLE OF THE SECTION 151 OFFICER

22.1 The council's Section 151 Officer is the Director of Corporate Services and their role is outlined in Appendix 5.

23. RISK

23.1 Given the nature, size and volume of the transactions involved, Treasury Management continues to remain a high risk area and as such is reflected in the corporate risk register. A summary of the perceived risks associated with Treasury Management is identified below.

Risk Area Identified	Potential Impact of Risk	Mitigation
Interest rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest.	Professional and specialist advice taken on interest rate forecast. Cash flow modelled against anticipated financial forecast. Treasury Management Strategy and Policies.
Cash flow	Unexpected adverse movements of significant sums of money may vary from the cash flow estimated and therefore result in a reduction in investment interest.	Cash flow modelled against anticipated financial forecast.
Risk Area Identified	**Potential Impact of Risk**	**Mitigation**
Sums lost in imprudent investment	Loss of sums invested in institution that is unable to pay its creditors.	Invest in institutions in accordance with Capita Asset Services creditworthiness service and in conjunction with Finance Teams assessment of the various counterparties.
Downgrading of banks and building societies	Loss of sums invested	Invest with the Government's Deposit Management Account Facility if necessary.
Legal and regulatory risk	The council fails to act in accordance with its legal powers	Comprehensive documentation of the organisations legal powers.
Sums lost through fraud, error and corruption	Financial Loss	Proper system of internal controls.
Refinancing borrowing on appropriate terms and conditions.	Higher borrowing costs	Reliable forecasts of maturing loans and capital expenditure to enable the council to negotiate appropriate terms.

24. SECTION 17 OF THE CRIME & DISORDER ACT 1998

24.1 Section 17 of the Crime & Disorder Act 1998 has been taken in account when preparing the Treasury Management Strategy and the Annual Investment Strategy.

25. BACKGROUND PAPERS

25.1 CIPFA Treasury Management in the public services - Guidance Notes for Local Authorities 2011.

25.2 Templates and forecasts provided by Link Asset Services.

APPENDIX 1

Link Asset Services – Economic Background

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the European Central Bank (ECB) is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk.

UK. Economic growth in Quarter 1 of 2018 was 0.1% followed by 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

In the November quarterly Inflation Report meeting, the MPC repeated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash. They gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling from increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target for the next two years ahead, given a scenario of minimal increases in Bank Rate.

The October **labour market** figures showed unemployment at 4.1% was marginally above a 43 year low of 4%. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. Fiscal policy is fuelling a temporary boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% in quarter 1 to 4.2% in quarter 2 and 3.5% in quarter 3. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be likely to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. Consequently, stock markets around the world have fell from the fear of the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China is not expected to have much of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago.

Appendix 2

Specified and Non Specified Investments

Investments that councils can make are of two types and these are identified in the subsequent paragraphs and table.

Specified Investments offer high security and high liquidity, must be in sterling and have a maturity of no more than a year. Such investments made with the UK government, UK local authorities and town/parish councils automatically count as specified investments.

Non Specified Investments are those investments not meeting the definition of specified investments, which are therefore of greater potential risk. Any investments with a maturity exceeding one year are automatically classed as non specified investments. The criteria for selecting counterparties for longer term investments is the same as that for short term investments i.e. Link Asset Services Durational Colour bands.

All specified and non-specified Investments will be

- Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy
- Subject to the duration limit recommended by Link Assets Services Treasury Solutions at the time each investment is placed
- Subject to a maximum of £30m of cored funds, in aggregate, being held in non-specified investments at any one time (£10m in property funds, £10m in Multi Asset Funds and £10m in other non-specified investments).

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**

	Minimum Credit Criteria	**Maximum maturity period**
Debt Management Agency Deposit Facility	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds	AAA	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	Liquid
Local authorities	N/A	12 months
Term deposits with housing associations	Blue Orange Red	12 months 12 months 6 months

	Green No Colour	100 days Not for use
Term deposits with banks and building societies	Link's "Green" rating	As per Link's rating
Term deposits with part nationalised banks	Link's "Blue" rating	As per Link's rating
Certificates of deposit (CD's) or Corporate bonds with banks and building societies	Link's "Green" rating	As per Link's rating
Certificates of deposit (CD's) with part nationalised banks	Link's "Green" rating	As per Link's rating
Gilt Funds	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA	

NON-SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities in excess of 1 year**

	Minimum Credit Criteria	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits with UK nationalised and part nationalised banks	UK Sovereign rating	2 years
Fixed term deposits with variable rate and variable maturities: -Structured deposits with banks and building societies	UK Sovereign rating	2 years
Term deposits with unrated counterparties : ie Local Authorities, Housing Associations	UK Sovereign rating	2 years
Term deposits with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	Link's "Purple" rating	2 years
Term deposits with banks and building societies	Link's "Purple" rating	2 years
Certificates of deposits with UK nationalised and part nationalised banks excluding Ulster bank (part of RBS)	Link's "Purple" rating	2 years
Certificates of deposits with banks and building societies	Link's "Purple" rating	2 years
Commercial paper issuance with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK sovereign rating	2 years

Commercial paper issuance bank and building societies	Link's "Purple" rating	2 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other that the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign rating	Max of 25% 5 years
Property Funds	N/A	No Limit
Multi Asset Funds	N/A	No Limit

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

APPENDIX 3

Approved countries for investments (Position as at 25/01/19)

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a AAA sovereign rated as such by at least two of the three rating agencies (Fitch, Moody's and Standard and Poor's) with the exception of the UK.

The list will be reviewed and amended if appropriate on a daily basis by the Director of Corporate Services.

As of 25/01/19 sovereigns meeting the above requirement were:

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K. (currently rated AA by Standard and Poor's, AA by Fitch and Aa2 by Moody's)
- USA (currently rated AAA by Fitch and Moody's, AA+ Standard and Poor's)

APPENDIX 4

Treasury Management Scheme for Treasury Delegation

(i) Full Council

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

(ii) Finance & Audit Committee

- To receive and scrutinise the council's Treasury Management Strategy and the prudential indicators prior to the start of the financial year and make recommendations thereon to the Full Council
- To receive and scrutinise the Treasury Management Annual Report and comment on any actions that may have taken during the course of the year.
- To monitor the overall state of the council's finances on at least a quarterly basis and advise on any actions it recommends.
- To consider the division of responsibilities in respect of the Treasury Management function.
- To consider the selection of external service providers and agreeing terms of appointment.

APPENDIX 5

The treasury management role of the section 151 officer

The S151 (responsible) officer

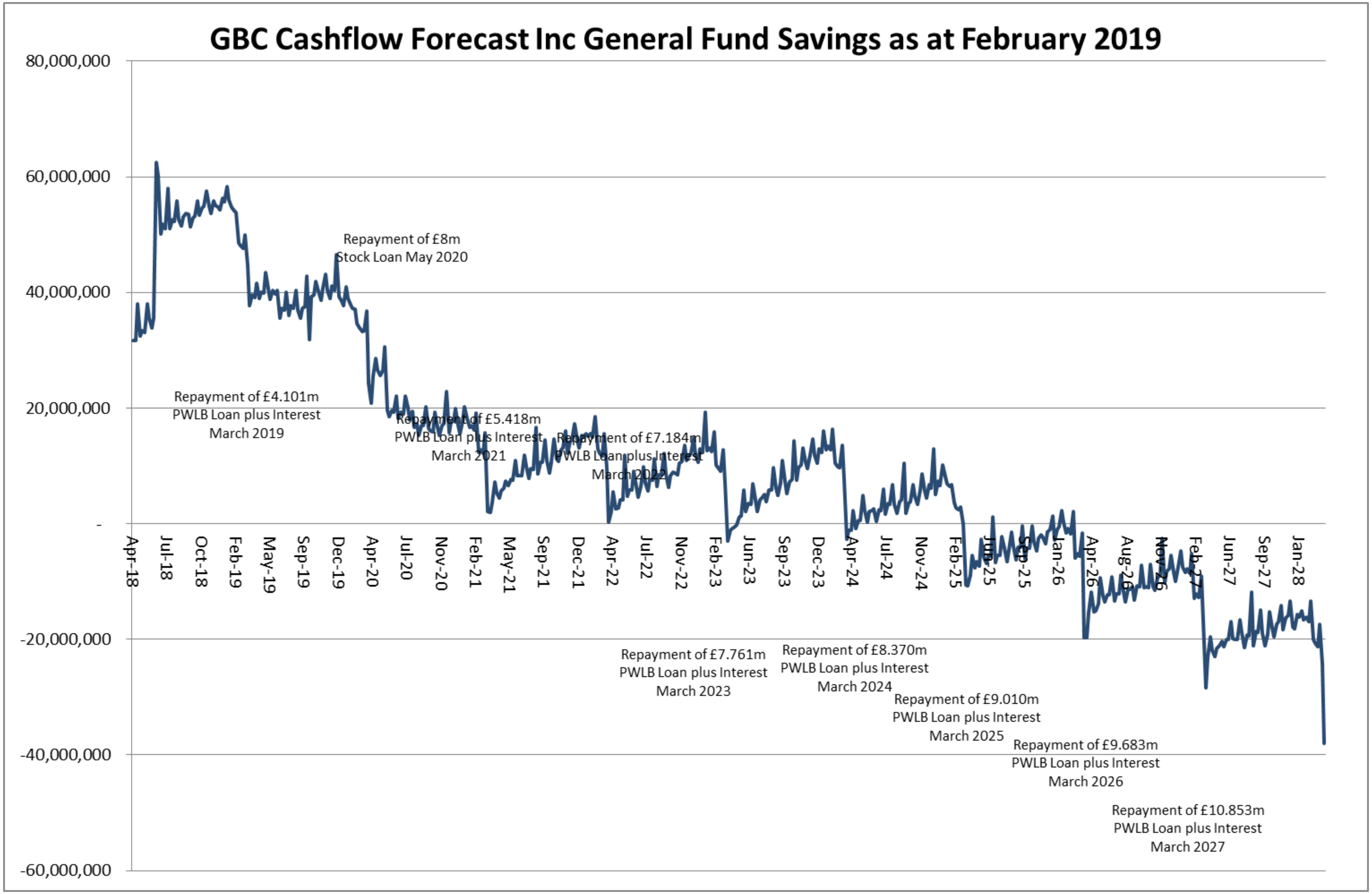
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the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

APPENDIX 6

GLOSSARY

Authorised Limit	This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.
Borrowing For Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the government will give revenue support through the grant system. Additional borrowing the council may wish to undertake, but for which there will be no financial contribution through the grant system.
Capital Financing Requirement	A measurement of the council's underlying need to borrow for a capital purpose.
CIPFA Treasury Management Code Of Practice	The professional code governing treasury management, which the council has formally adopted.
Debt Management Agency Deposit Facility	This deposit facility allows short-term or long term deposits to be lodged with the government. This offers the highest security for the Principal sum on short-term placements.
Money Market Funds	A money market fund is a "pool" of different types of investments, managed by a fund manager. The pool of investments will typically include bank deposits, certificates of deposit (CDs) amongst other investments. A number of organisations will invest in a particular fund. The interest rate yield on an MMF deposit is not known at the time of the deal. In return for this uncertainty, money can be accessed whenever necessary.
Municipal Bond Agency	An agency has been established by the Local Government Association intended to offer council's an alternative and less costly option for borrowing of long-term funds than the PWLB through the introduction of competition and diversity to the marketplace.
Net Revenue Stream (NRS)	The NRS for the general fund is the "amount to be met from government grant and local taxpayers", as shown in the consolidated revenue account. This represents the budget requirement for the council. The NRS for the housing revenue account is the amount to be met from

	housing subsidy and rent income as shown in the HRA accounts.
Operational Boundary	This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure that authorised limit is not breached.
Public Works Loan Board (PWLB)	Part of the government's debt management office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of long-term borrowing for a local authority.



GBC Cashflow Forecast Inc General Fund Savings as at February 2019
80,000,000
60,000,000
40,000,000
20,000,000
-
-20,000,000
-40,000,000
-60,000,000
Apr-18
Jul-18
Oct-18
Feb-19
May-19
Sep-19
Dec-19
Apr-20
Jul-20
Nov-20
Feb-21
May-21
Sep-21
Dec-21
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Nov-24
Feb-25
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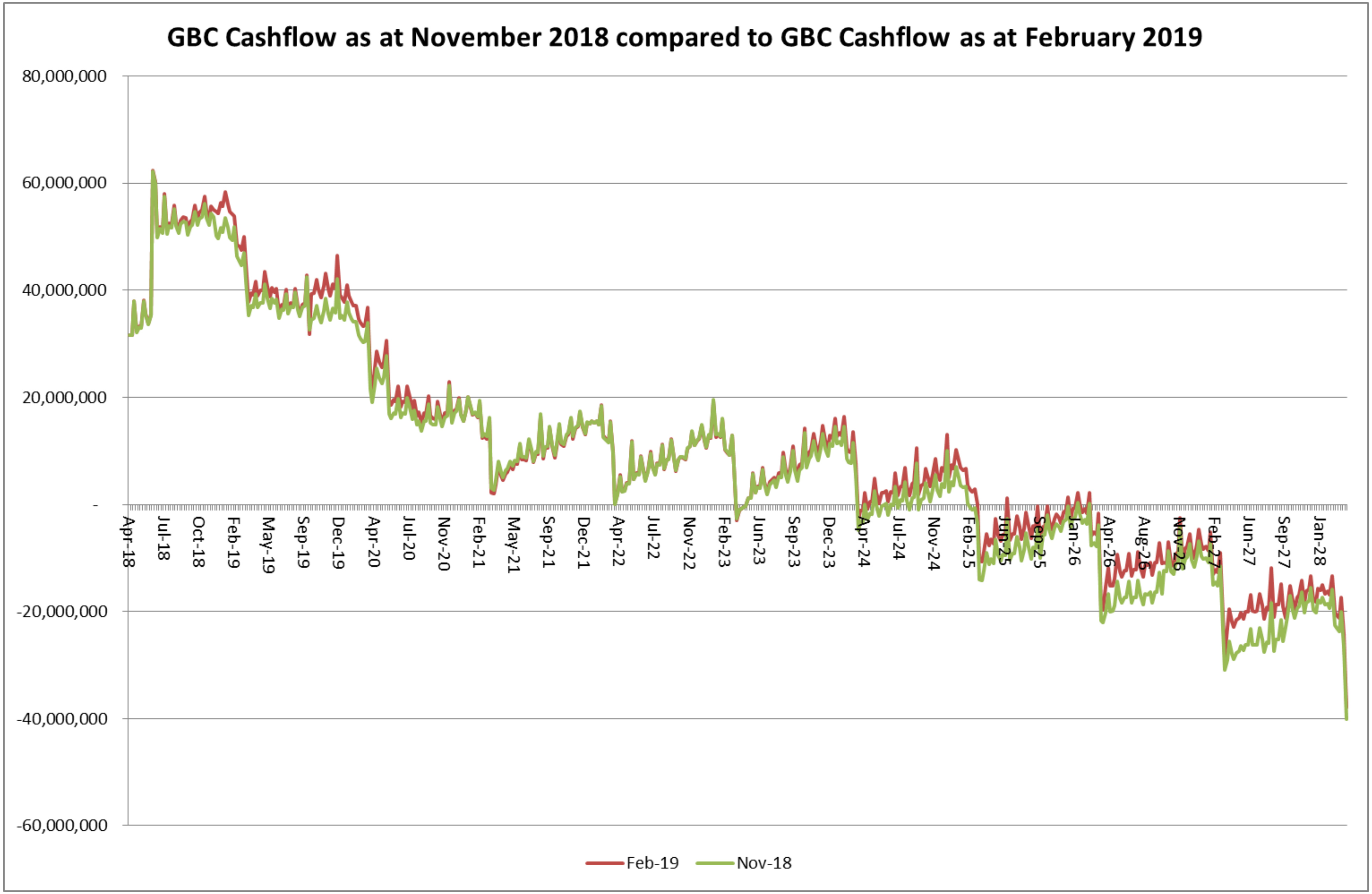
Jun-27
Sep-27
Jan-28
Repayment of £8m Stock Loan May 2020
Repayment of £4.101m PWLB Loan plus Interest March 2019
Repayment of £5.418m PWLB Loan plus Interest March 2021
Repayment of £7.184m PWLB Loan plus Interest March 2022
Repayment of £7.761m PWLB Loan plus Interest March 2023
Repayment of £8.370m PWLB Loan plus Interest March 2024
Repayment of £9.010m PWLB Loan plus Interest March 2025
Repayment of £9.683m PWLB Loan plus Interest March 2026
Repayment of £10.853m PWLB Loan plus Interest March 2027


GBC Cashflow as at November 2018 compared to GBC Cashflow as at February 2019
80,000,000
60,000,000
40,000,000
20,000,000
-
-20,000,000
-40,000,000
-60,000,000
Apr-18
Jul-18
Oct-18
Feb-19
May-19
Sep-19
Dec-19
Apr-20
Jul-20
Nov-20
Feb-21
May-21
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Sep-27
Jan-28
Feb-19
Nov-18

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Capital Strategy

Gravesham Borough Council

2019 - 2024

Table of contents

1. Introduction

1.1 This Capital Strategy is intended to outline the principles followed by Gravesham Borough Council in its approach to capital investment over the long-term. It sets out the framework within which the council will plan, procure, prioritise and manage its capital investment and financing decisions in support of the delivery of the council's priorities, as set out in the Corporate Plan 2015-2019, and has intrinsic links to the Treasury Management Strategy of the council.

1.2 The Local Government Finance Act 2003 provides the statutory framework for the consideration of affordability in the council's capital investment decisions, taking into account both initial capital investment and ongoing revenue implications of the capital investment activity. Capital projects undertaken by the council will primarily focus on those which deliver long-term economic benefits to the borough and/or generate beneficial financial returns that will contribute to maintaining its ongoing financial sustainability.

1.3 The strategy has been developed by the Financial Services Team in conjunction with Housing colleagues and representatives of the Asset Management Group (AMG), which is chaired by the Director (Communities) and works corporately to promote good practice in Asset Management.

1.4 The strategy will be reviewed at least annually to ensure it remains fit for purpose and in line with other key strategic documents of the council. Minor updates will be made to the document with the agreement of the S151 Officer. Any material updates will be presented to Full Council for adoption.

2. Corporate Priorities and links to other strategic documents

2.1 The council's **Constitution** provides the Framework for how the council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution contains specific references to how capital investment planning decisions should be taken.

2.2 The **Corporate Plan** is the key document for setting the strategic direction of the council. The plan is developed through consideration of local priorities, understanding the key community characteristics of the borough, consultation with residents, businesses and key stakeholders in the borough and government policies. The Corporate Plan 2015-2019: Delivering for the Community was adopted by Full Council in October 2015 and set the four strategic objectives of the council as being:

- **Safer Gravesham** – where local residents and visitors can live, work and travel in a safe, clean and green borough.

- **Stronger Gravesham –** a healthier more cohesive community where children have the best start in life and people are proud to call home.

- **Sustainable Gravesham –** a thriving and sustainable local economy, built on the foundations of high quality regeneration and development projects.

- **Sound and self-sufficient council –** a well-run and innovative council supporting its staff to realise commercial opportunities whilst transforming its services to deliver at the best possible value for money.

2.3 Each council department is required to prepare an annual **Business Plan** to demonstrate how its activity in the forthcoming year contributes to the delivery of the Corporate Plan objectives. The Business Planning template identifies where projects to be undertaken during the year are likely to require capital investment.

2.4 The **Medium Term Financial Strategy (MFTS)** sets out how the council will plan for and meet the financial challenges it faces over the medium term as a means of delivering a robust and stable financial basis on which to deliver quality council services. The council recognises the importance of ensuring that its increasingly limited revenue and capital resources are aligned with key policy priorities.

2.5 The **Treasury Management Strategy** documents how the council will manage its cash flows and investment transactions and seek to effectively control the risks associated with such activities in the pursuit of optimum performance consistent with those risks. The strategy also sets out how the council will make use of external professional advisors and ensure that the knowledge and skills of officers and Members involved in such activity are maintained. The Capital Strategy will seek to determine the borrowing need of the council, with this informing long term cash planning and therefore the treasury management activity of the council.

2.6 The **Housing Strategy** shows how the council and its partners will work together to address the borough's housing needs and includes specific priorities to improve the quality of housing in both the private and public sector and to maximise the supply of affordable housing. This is intrinsically linked to the **Housing Development Strategy**, which identifies how the council intends to add to its housing stock and the types of homes the council aims to deliver. Historically, expenditure on the council's housing stock had represented the largest element of the council's capital investment programme. In more recent years focus has been on maintaining the standard of the council's housing stock and delivering the council's commitment to delivering new council housing units.

2.7 The corporate **Property Strategy** presents a framework for the strategic management of the council's non-dwelling property assets. The principle objectives of the Property Strategy are:

- To provide members and senior management with a source of reference for property related assets.
- To retain, increase and develop new sources of income from assets.
- To provide a financial return through its investment portfolio and sales of surplus assets.
- To support a programmed, planned maintenance programme.
- To assist Housing Development with a new build housing development.
- To support adequate and appropriate accommodation for services
- To assist with the delivery of major projects (e.g. Fleet Leisure and Heritage Quarter).

2.8 The **Property Acquisition Strategy** provides a framework for purchasing commercial property assets as a way of securing a better total return (i.e. from both income and capital appreciation) than cash investments, whilst still maintaining a high level of security.

2.9 The **IT Strategy** details how Information and Communication Technology (ICT) can be applied and developed to support the delivery of the Corporate Plan, the transformation agenda of the council and drive service improvement by enabling change and efficiencies.

2.10 The **Digital Strategy** supports the customer service and access strategy of the council and aims to expand the service delivery options by providing and encouraging customers to use the most convenient and cost-effective digital contact channels, where appropriate.

3. Capital Expenditure

3.1 Capital expenditure involves the acquisition, creation or enhancement of fixed assets such as land, buildings or equipment which have a long term value to the council. Such assets support the delivery of council services over the long term and create ongoing financial commitments to the council, either through capital financing requirements or ongoing revenue costs. The council uses the following classification of assets:

Asset Classification	Asset Type Examples
Property, Plant and Equipment	Council dwellings
	Land and buildings
	Vehicles, plant and equipment
	Infrastructure assets (e.g. paths, street furniture)
	Community Assets (e.g. parks and open spaces, allotment sites)
	Assets Under Construction
Intangible Assets	IT Software
Investment Properties	Properties principally held by the council to provide a revenue income stream/capital appreciation
Heritage Assets	Assets of historic or cultural interest to the borough (e.g. statues, monuments, civic regalia)
Assets Held for Sale	Assets that are being actively marketed for disposal

3.2 The council applies a de minimis level of £12,000 for individual items to be charged as capital expenditure. Items below this level are charged to revenue in the year that the expenditure in incurred.

4. Capital Expenditure and Treasury Management Investments

4.1 Treasury Management investments take place as a consequence of the council's cash flows and debt management activity and will seek to maximise the return on the cash balances held by the council until this is required for use in the delivery of council business.

4.2 The council's treasury management investment priorities will be security first, liquidity second and then return. The management of these activities is documented in the Treasury Management Strategy and the Annual Investment Strategy.

4.3 The council's Annual Investment Strategy recognises that the council may, from time to time, make investment decisions as part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment (and capital expenditure) rather than a treasury management investment. At the time of preparing this strategy the council had interests in two such service investments:

- Municipal Bonds Agency (MBA) – established by the Local Government Association (LGA) to provide councils with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB).

- Commercial acquisitions – assets purchased under the council's Property Acquisition Strategy with the intention of generating a revenue income stream for the council.

5. Commercial Activity and Property Investment Decisions

5.1 Commercial property investment decisions are directed by the requirements of the Property Acquisition Strategy. The strategy forms part of the council's overall activity to proactively respond to ongoing pressures on local government funding and sets out the principal criteria for selecting investable property assets as being:

- The investment provides a regular income with the net initial yield exceeding a minimum level of 3% above the prevailing 25 year PWLB fixed maturity rate, after taking into account all costs associated with the acquisition.

- That the purchases be from the retail, industrial and business (i.e. office premises) sectors.

- Acquisitions are not limited to being within the Borough of Gravesham.

5.2 The powers to acquire or dispose of properties purchased under the strategy have been delegated to Leader of the Executive, supported by a cross-political party working group, the Chief Executive, Director (Corporate Services) and the Monitoring Officer. As appropriate, independent external professional advice is sought as part of the due diligence arrangements in evaluating potential acquisitions. These arrangements ensure that appropriate governance arrangements are in place whilst also reflecting the need for the council to be able to respond quickly in the event of a suitable property coming to market.

5.3 Any decisions made by the Leader of the Executive are reported to the next meeting of the Cabinet for information purposes. Monitoring of activity under the strategy is reported to Cabinet and the Finance & Audit Committee through budget monitoring reports, specific reports on the performance of the council's property investment portfolio and through the council's Performance Management Framework and Treasury Management Indicators.

5.4 The council has recognised that its decisions to invest in commercial property will expose it to fluctuations in the commercial property market. To this end, the council has established a Commercial Income Protection Reserve intended to meet any maintenance and upkeep requirements of assets purchased under the Property Acquisition Strategy or to smooth the impact on the General Fund revenue budget of any unplanned void periods. The Reserve is valued at 15% of the Rental Income reflected in the Medium Term Financial Plan.

6. Loans

6.1 The council has discretion to make loans for a number of reasons, but primarily for economic development of furtherance of housing delivery to meet the needs of the borough. Any such loans will be treated as capital expenditure.

6.2 In making loans the council will undertake appropriate due diligence to evaluate the borrower and the risk of borrower default on repayment amounts, ensuring that loan terms are reflective of this evaluation. As per the Constitution of the council, any decision to issue a loan will be taken in accordance with the treasury management policies and practices approved by Full Council.

7. Priority Areas for capital investment

7.1 The council recognises the importance of strategic consideration of capital project proposals as a means of prioritising the limited capital resources it has whilst ensuring the availability of resources so that essential assets continue to be provided and maintained.

General Fund

7.2 The financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for capital investment has reduced significantly over recent years, and the council recognises that capital investment will increasingly need to rely more on internal resources or through the council pursuing capital projects which are either self-sustaining or generate positive returns, both in terms of meeting corporate objectives and producing revenue savings.

7.3 The council's capital investment priorities for the General Fund will be:

- **Corporate Property Assets –** the council has a land and property portfolio valued at some £37m (at 31 March 2018) which is subject to periodic review by the Asset Management Group to ensure that these assets continue to support the delivery on council services over the long term. The council has established a maintenance programme to support its key property assets which considers both capital and revenue requirements to ensure that these assets remain operational. Where acquisition or disposal of land or property assets is recommended, this will be actioned in accordance with the Property Strategy.

- **Sustainability of the council –** the council will seek to invest in capital projects that support the sustainability of the council over the longer term.

- **Economic Regeneration Investment –** the council will seek to invest in capital projects that support longer term economic growth and place shaping. This will include the acquisition of strategic sites for the purpose of delivering such projects.

- **Community –** the council will focus its capital investment activity on the provision facilities that will directly increase community wellbeing.

- **Technology and Digitalisation –** the council will undertake appropriate investment in its IT infrastructure to achieve improved access to services, enhanced performance and deliver financial efficiencies.

7.4 The following material investments are planned to take place between 2019 and 2024:

- **St Georges Shopping Centre –** investment of £14.2m over a three year period to deliver improvements to the Shopping Centre, including the construction of the Leisure Quarter, mall enlivenment and entrance enhancement works.

- **Land Development –** plans are in place to develop council-owned land at Dering Way and at the Brookvale Depot to provide office space and industrial units to support economic development within the borough.

- **Commercial Property Acquisition –** continuation of the activity to secure ongoing revenue returns to support the delivery of council services.

Housing Revenue Account

7.5 The financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for capital investment has reduced significantly over recent years, and the council recognises that capital investment will increasingly need to rely more on internal resources or through the council pursuing capital projects which are either self-sustaining or generate positive returns, both in terms of meeting corporate objectives and producing revenue savings.

7.6 The council's capital investment priorities for the Housing Revenue Account will be:

- **Council Dwellings –** the council has dwellings portfolio valued at some £313m (at 31 March 2018). As a Landlord, the council has a responsibility to ensure that the dwellings it provides are fit for purpose and maintained to a decent standard. Where acquisition or disposal of dwellings is recommended, this will be actioned in accordance with the approved Housing Development Strategy. Investment in the council housing stock ensures properties remain lettable, helping to secure and sustain the rental income which fundamentally ensures the viability of the HRA. The council undertakes a programme of stock condition surveys to ascertain the status of its housing stock and inform both capital and revenue expenditure requirements over the next 30 years to ensure the stock is sufficiently maintained.

- **New Build and Acquisitions –** The council has put in place a new build and acquisitions programme to deliver its commitment to provide new affordable homes for its communities. The programme utilises the '1-4-1' receipts generated from the sale of council dwellings though the Right to Buy (RTB) scheme, which are to be used to meet 30% on the cost of eligible new build schemes and dwelling acquisitions. This investment helps to deliver housing to meet the needs of the borough, as well as offsetting the loss of housing stock and associated rent income loss from sales through RTB.

- **Disabled Facilities Grants –** the council administers financial grants towards the cost of adaptations and provision of facilities to enable disabled persons to remain living in their home.

- **Technology and Digitalisation –** the council will undertake appropriate investment in its IT infrastructure to achieve improved access to services, enhanced performance and deliver financial efficiencies.

7.7 The following material investments are planned to take place between 2019 and 2024:

- **Maintenance of existing dwelling stock –** delivery of a programme of works focused on the replacement and improvement of elements within dwellings and ensuring the health & safety of our tenants.

- **New Build and Acquisitions –** investing in the expansion of the council housing stock for the purpose of delivering further affordable housing for use by residents of the borough.

8. Sources of Capital Funding

8.1 Central government support for capital investment has reduced significantly over recent years and financial resources available to meet corporate priorities continue to be constrained in the current economic and political climate. There is a need, therefore, for greater reliance to be placed on internal resources or external funding, including borrowing, to fund capital investment. Decisions on capital investment will need to have a greater focus on projects that are either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

8.2 The capital programme will be funded from the following principal sources:

- **Central government** - Grants may be allocated in relation to specific programmes or projects, such as the Disabled Facilities Grant.

- **Third Party funding** - funding for capital projects may also be provided by quasi-government sources, national organisations or other parties external to the council. The Council will always seek to maximise external contributions, subject to any related grant conditions and/or match-funding obligations.

- **Developer contributions** - these represent contributions from developers towards the provision of public assets or facilities and are generally linked to the mitigation of impacts of developments on existing communities. These contributions are usually earmarked for specific purposes in planning agreements and are generally related to infrastructure projects.

- **Unsupported borrowing** - under the Prudential Code the council has discretion to finance the capital programme by undertaking borrowing to fund capital projects with the full cost of that borrowing being funded from within council resources. Each proposal for borrowing will be assessed in its own merit to ensure that it is prudent, affordable and sustainable.

- **Capital receipts from asset disposal -** council assets which are deemed surplus may be considered for disposal, generating capital receipts that can then be directed to fund other capital projects.

- **Revenue , Balances and Reserves** - capital expenditure may be funded directly from an in-year revenue contribution, a direct contribution from working balances or by specific revenue reserves set aside for such purposes.

9. Capitalisation Flexibilities

9.1 Central government support for capital investment has reduced significantly over recent years and financial resources available to meet corporate priorities continue to be constrained in the current economic and political climate. There is a need, therefore, for greater reliance to be placed on internal resources or external funding, including borrowing, to fund capital investment. Decisions on capital investment will need to have a greater focus on projects that are either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

10. Identification and appraisal of capital project proposals

10.1 There is a requirement for the council to ensure continued funding for existing programmes of work and to prioritise new capital projects that come forward. For this purpose the council has developed a capital bid process. New project proposals will be submitted using the CP1 Form (see Appendix One) and will be initially endorsed by the relevant Director before being put forward for further evaluation by Financial Services.

10.2 The council has adopted the following high level criteria in assessing such bids:

- the extent to which the project contributes to meeting the key aims and objectives of the Corporate Plan;
- the extent to which projects contribute to the priority areas set out in the strategy;
- the impact of the project on service provision and meeting statutory obligations;
- the financial viability of the project and the extent to which it provides future financial and performance benefits to the council and benefit to the wider community;
- the consequences of not undertaking the project.

10.3 On receipt of a CP1 Form, the evaluation process will be conducted by Financial Services as part of the annual budget setting process. The outcomes of the evaluation exercise will then be presented to the council's Management Team for review and endorsement of projects to be taken forward. As part of the annual budget setting process, the endorsed capital programme will be presented to Cabinet initially before being proposed to and approved by Full Council.

10.4 The council's capital programme currently covers a rolling ten-year period, in line with our public revenue planning arrangements, with plans for the forthcoming three years incorporated into the annual budget book. The Medium Term Financial Plan and HRA Business Plan incorporate the anticipated revenue effects arising from the capital programme.

10.5 In year capital project proposal can be generated from a variety of sources, primarily from external funding opportunities or a need to respond to a particular issue that has arisen during the year. Such proposals will be considered in the same way as those submitted through the annual capital bid process.

11. Revenue implications of Capital Expenditure

11.1 In approving projects for inclusion within the capital programme, the council will ensure that capital investment plans are affordable, prudent and sustainable, taking into account the arrangements for the repayment of debt through the Minimum Revenue Provision (MRP) policy approved as part of its treasury management framework. Anticipated ongoing revenue budget implications of capital expenditure decisions will be documented on the CP1 form used to capture and consider new project proposals.

11.2 Capital financing charges, additional running costs, savings on expenditure or income arising from capital investment decisions will be reflected in the Medium Term Financial Plan.

12. Capital Programme 2019/20 to 2023/24

12.1 The council has a statutory responsibility to set a fully funded three year capital programme each year when agreeing the budget. These plans are published in the Budget Book which supports the budget and council tax setting considerations by Full Council in February each year.

12.2 For the purposes of strategic capital planning the council has extended its public capital programming horizon to five years and the proposed programmes for both the General Fund and HRA are provided at Appendix Two and Appendix Three, with a summary of these plans provided below:

TOTAL RESOURCES USED	2019/20 Original Budget £	2020/21 Original Budget £	2021/22 Original Budget £	2022/23 Original Budget £	2023/24 Original Budget £
General Fund Capital Expenditure	19,548,550	6,432,250	435,000	355,000	370,000
HRA Capital Expenditure	15,889,230	19,362,000	14,381,000	13,097,000	12,697,000
Non HRA Housing Capital Expenditure	832,800	832,800	832,800	832,800	832,800
TOTAL CAPITAL PROGRAMME	**36,270,580**	**26,627,050**	**15,648,800**	**14,284,800**	**13,899,800**
FINANCED BY:					
Grants and Contributions	6,474,740	6,510,050	832,800	832,800	832,800
Major Repairs Reserve	8,221,420	7,140,000	7,088,000	7,088,000	7,093,000
Capital Receipts	925,120	150,000	150,000	150,000	150,000
Specific Reserves	8,761,890	6,281,000	3,784,000	3,712,000	3,872,000
Revenue Contributions	0	3,396,000	3,682,000	2,502,000	1,952,000
External Borrowing	5,900,000	3,150,000	112,000	0	0
Internal Borrowing	5,987,410	0	0	0	0
TOTAL RESOURCES USED	**36,270,580**	**26,627,050**	**15,648,800**	**14,284,800**	**13,899,800**

12.3 The fully funded five year Capital Programme of the council covering the period 2019/20 – 2023/24 has a total value of £106.73m, of which:

- £27.14m relates to General Fund projects
- £75.43m relates to HRA projects
- £4.16m relates to General Fund Housing projects

13. Governance and monitoring of the capital programme

13.1 The Capital Strategy will be considered annually by the Finance and Audit Committee before being presented for approval by Full Council.

13.2 The Constitution of the Council (Financial Procedure Rules, Annex 2.6) requires:

- the Section 151 Officer to ensure that a three-year programme of capital expenditure is prepared on an annual basis, following the principles established in the Council's Medium Term Financial Strategy. The programme will show projects already approved and those for future consideration. Such programmes will be considered by the Chief Officer Management Team and Cabinet before submission to the Full Council.

- the Section 151 Officer and the Director responsible for development management to maintain a register of capital funding sources.

- a full report to be presented to Cabinet for any planned or proposed capital expenditure exceeding £100,000 or which might entail the council taking on significant liabilities before any contractual commitment is entered into.

- A full report to be presented to Cabinet where a revised estimate of a scheme either exceeds £100,000 or exceeds the last reported estimate by an amount equal to 2% or £10,000, whichever the lesser figure.

13.3 The annual business planning process for the council requires each department to set out proposed projects for the year and identify where such projects are likely to require capital investment and how projects link to corporate plan objectives and policy commitments.

13.4 In-year capital requirements are assessed in accordance with the evaluation process defined in this strategy and are considered by Management Team prior to presentation to Members.

13.5 At least quarterly, responsible officers are requested to provide updates on the delivery of projects included within the annual capital programme. This process is supplemented by financial monitoring information produced by Financial Services and circulated to key officers.

13.6 The capital programme is monitored on a quarterly basis as part of the Council's budget monitoring arrangements by both Cabinet and the Finance and Audit Committee, with reports to Members provided on new projects, variations to existing projects, slippage in programme delivery and the progress of significant schemes.

13.7 The Capital Strategy and the capital programme in subject to Internal and External Audit review.

14. Understanding and Managing Risk

14.1 Risk is considered throughout the capital investment process set out in this strategy through the way in which projects are appraised, approved, monitored and reported on. The Prudential Indicators reported as part of the council's treasury management monitoring arrangements also provide measures by which the council can assess and understand the risk of its capital investment decisions and ensure that capital expenditure remains affordable, prudent and sustainable.

14.2 The council has adopted a project management approach. Project management tools will be used in accordance with the size and scale of the project, with a risk assessment carried out as part of the completion of any Project Initiation Document.

14.3 Each capital investment project is assessed to ensure that the council is aware of any VAT implications the project may present.

14.4 The council is facing diminishing capital resources and limited access to grants and external funding opportunities which means the council needs to monitor use of available funds to ensure that it is fully aware of the financial implications of capital investment. Suitability and availability of funding is considered on a project-by-project basis and levels of capital resources are reported to Management Team and Members through quarterly budget monitoring reports.

14.5 The acquisition or disposal of capital assets, or procurement contract to deliver or maintain capital assets are to be conducted in line with the council's Contract Procedure Rules and Procurement Strategy.

15. S151 Officer Assurance

15.1 This capital strategy has been prepared in line with the requirements of the 2018 CIPFA Prudential Code and 2018 Treasury Management Code.

15.2 The Section 151 Officer views the strategy to be prudent and affordable and fully reflective of the council's Medium Term Financial Strategy, Treasury Management Strategy and other Strategic Plans.

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