M E T R O P O L I T A N   B O R O U G H   O F   K N O W S L E Y

To:	The Chairperson and Members of the Governance and Audit Committee
Meeting:	4 February 2019
Wards Affected:	Borough-wide
Executive Remit:	All

Non-Key Decision

REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES)

TREASURY MANAGEMENT STRATEGY 2019/20

1. EXECUTIVE SUMMARY

1.1 The Treasury Management Strategy outlines plans for the overall management and control of the Council's cash income and expenditure. The Governance and Audit Committee is responsible for reviewing the Council's Treasury Management Strategy and treasury management performance during the year. The Committee is asked to review the proposed Strategy for 2019/20 prior to it being submitted to the Council for approval on 6 March 2019.

1.2 Borrowing and investment policies have been reviewed to ensure that key controls are in place to minimise risk in treasury management activities. The Council will ensure that any loans taken out are affordable by minimising interest rates and spreading repayments over a suitable time period. A risk analysis of all Council investments ensures that day to day funds are only placed with counterparties with high credit ratings (A- or above).

1.3 The Council is also required to repay a prudent and affordable amount of its debt each year (known as the Minimum Revenue Provision). The Council changed its policy for calculating the Minimum Revenue Provision during 2016/17 to align repayment of debt to the lifetime of its assets; this policy will be maintained for 2018/19 subject to there being no changes arising from a current Government consultation exercise on the approach.

1.4 There is a new national requirement for Councils to approve a Capital Strategy. This is to provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. The Treasury Management Strategy forms part of that overall Capital Strategy.

2. RECOMMENDATIONS

Members of the Committee are recommended to request the Council to adopt the 2019/20 Treasury Management Strategy as set out at Appendix A to this report.

3. BACKGROUND

3.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. In addition, the Ministry of Housing, Communities and Local Government issued revised Guidance on Local Authority Investments in March 2010 which requires the Council to approve an investment strategy before the start of each financial year.

3.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Director (Resources) considers that the 2019/20 Treasury Management Strategy as set out at Appendix A to this report represents an appropriate balance between risk management and cost effectiveness.

3.3 There is a new requirement (under the Prudential Code for Capital Finance in Local Authorities) for the Council to approve a Capital Strategy – which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. The Treasury Management element of the Capital Strategy is set out in this report. Details of the Council's Capital Programme, and a report on the overall Capital and Investment Strategy, will be presented to the Cabinet at its meeting on 13 February 2019. Those reports, along with this report, will then be considered by the Council at its meeting on 6 March 2019.

3.4 The Council is advised by independent specialists (Arlingclose) on all matters relating to treasury management strategy and activity. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the potential loss of invested funds and the effects of changes in interest rates. The successful monitoring and control of such risks is therefore central to the Council's Treasury Management Strategy.

3.5 In accordance with Government guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should there be any significant changes to the assumptions on which this report is based. Such circumstances could include any large unexpected change in interest rates or movement in the level of the Authority's investment balance.

4. THE TREASURY MANAGEMENT STRATEGY

4.1 The proposed Treasury Management Strategy is attached at Appendix A to this report. It sets out the Council's current treasury management position and outlines plans for the overall management and control of the Council's cash income and expenditure for 2019/20. The draft Strategy takes into account updated forecasts on interest rates and covers various aspects of the treasury management function including:-

- identifying the controls and limits in place to minimise the risk of the treasury activities of the Council;
- determining the Council's borrowing requirements for the year;
- establishing the strategy for borrowing in terms of sources and types of loans;
- setting an approach to be followed in the event of any rescheduling of debt which may be required;
- outlining the Council's Minimum Revenue Provision Policy in line with regulations; and,
- detailing the Annual Investment Strategy to be adhered to when placing funds on deposit.

4.2 The Strategy includes Treasury Indicators (Appendix A - Annex 1) which meet the requirement of the Local Government Act 2003 to ensure that all capital expenditure is prudent, affordable, and sustainable. These Indicators will form the basis of the monitoring of treasury management performance throughout the year.

4.3 Approach to Borrowing

4.3.1 A key aim of the proposed Treasury Management Strategy is that the Council should seek to minimise the cost of its debt while also ensuring that the obligation to repay loans is spread over a suitable period of time. The Council's debt portfolio therefore comprises a range of loans (predominantly from the Public Works Loan Board) which are repayable over periods ranging from under one year to beyond 50 years. Currently, the weighted average rate of interest on the Council's total debt portfolio is 4.446% (comprised of rates between 2.500% and 7.375% over a range of periods).

4.3.2 The Council uses internal funds (the Council's cash investments available) instead of external borrowing in order to minimise borrowing costs, particularly when the interest that could be earned on these investments remains low. An internal borrowing strategy will also reduce credit risk associated with external investments.

4.3.3 In addition, invest-to-save opportunities will continue to be reviewed which will focus on the early repayment of debt. This involves striking a balance between the charges that the Council incurs for paying off a loan early (known as the 'premium'), against the savings in interest payments which the Council can benefit from as a consequence of repaying such a debt from over the coming years.

4.4 Minimum Revenue Provision

4.4.1 The Minimum Revenue Provision is the minimum amount of money which the Council must set aside each year to repay debt. This amount represents a cost to the Council's revenue budget each year. The Council's policy for setting the Minimum Revenue Provision is detailed in the Treasury Management Strategy at Appendix A.

4.4.2 While the Council is free to determine its own method for calculating the Minimum Revenue Provision, legislation places a duty on the Council to make sure that the amount set aside each year is prudent. The Council therefore follows best practice guidance and will set the level of Minimum Revenue Provision for 2019/20 accordingly.

4.5 The Treasury Management Investment Strategy

4.5.1 The Council's Treasury Management Investment Strategy is included within the Treasury Management Strategy. It sets out plans for the management and control of the investment of any surplus cash. It includes details of the Council's current investments, as well as the types of investments in which the Council will engage. The Strategy also sets out the criteria which will inform decisions on the length of investments.

4.5.2 The Council's policy is to ensure that high interest rates are not secured at the expense of unacceptable risk. This approach has become particularly important given the volatility of the share prices and stability of many financial institutions, as well as other market and creditworthiness indicators. The Council should continue to minimise its exposure to financial risk and ensure that its financial standing is protected by using prudent treasury management policies.

4.5.3 Day-to-day treasury management investments are restricted to counterparties which are included on the Council's Approved Lending List, which identifies the maximum amount and lending period for investment with each counterparty or group.

4.5.4 The Council keeps the Approved Lending List under constant review in order to ensure that all potential counterparties continue to meet the criteria set out in the Annual Investment Strategy. If any counterparty no longer meets the Council's lending criteria, its status on the Approved Lending List is withdrawn immediately.

4.5.5 Under the approved Strategy, the Council's Approved Lending List is monitored by the Executive Director (Resources) and reported annually to the Cabinet Member for Resources.

4.5.6 Given the significant cuts to public expenditure and local government funding in particular, the Council now places some investments with counterparties which it would not previously have considered. This approach is being taken in order to earner higher returns. These investments are in funds which buy commodities ranging from property to corporate equities and are more volatile than the Council's usual investments. While these funds are still recommended by Arlingclose, in order to take an appropriate approach to their risk, only a limited amount of the Council's resources have been invested in them and they will be monitored regularly.

4.5.7 These controls and systems ensure that the Council takes a prudent approach to its investment decisions, and can adapt its decisions to the changing economic environment to ensure that risk to the Council's financial standing is minimised.

5. RESOURCE IMPLICATIONS

5.1 **Financial Resources**

5.1.1 The proposed Treasury Management Strategy seeks to ensure that the cost and risk of the Council's debt portfolio is minimised, and that investment decisions reflect the changing economic environment and ensure that risk to the Council's financial standing is minimised.

5.1.2 Based on the proposed approach, the interest expected to be paid on borrowing, and the interest anticipated to be received on investments, will be incorporated into the 2019/20 revenue budget figures due to be considered by the Cabinet on 13 February 2019.

5.2 **Other Resources**

Treasury management staff will continue to liaise closely with Arlingclose to be proactive in seeking opportunities to maximise returns and minimise borrowing costs related to treasury activities. This report has no direct impact on other resources.

6. EQUALITY AND SOCIAL VALUE IMPACT

6.1 **Equality and Diversity**

There are no issues arising from the Equality Impact Assessment for this report, which is attached at Appendix B.

6.2 **Social Value**

There are no Social Value implications arising directly from this report.

7. COMMUNICATION ISSUES

7.1 The Executive Director (Resources) will continue to liaise with the Council's external advisors on all aspects of treasury management.

7.2 The draft 2019/20 Treasury Management Strategy sets out the reporting arrangements for treasury management policy, practices and performance. These are detailed at Appendix A. Under these arrangements, the key issues to be noted are:-

i) The Full Council will retain responsibility for agreeing the Council's Treasury Management Policy, Strategy and practices for the year ahead;

ii) The Governance and Audit Committee will be responsible for scrutiny of the strategy and will receive the annual performance report;

iii) All strategic investment decisions will be fully documented and reported at the appropriate times, along with updates on the financial institutions on the Council's Approved Lending List, to the Executive Director (Resources);

iv) Regular treasury management and investment monitoring will be considered by the Executive Director (Resources) throughout the year and annually by the Cabinet Member for Resources; and,

v) The final treasury management figures for the year, along with any resulting amendments to future years, will be reported as part of the revenue budget outturn report to the Cabinet and reflected in the Council's final accounts.

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Executive Director (Resources)

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Appendices:-

Appendix A Proposed Treasury Management Strategy, Treasury Management Investment Strategy and Minimum Revenue Provision Policy 2019/20.

Appendix B Equality Impact Assessment

Background Documents:-
None

APPENDIX A

PROPOSED TREASURY MANAGEMENT STRATEGY, TREASURY MANAGEMENT INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2019/20

1. TREASURY MANAGEMENT STRATEGY

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

1.2 The Act also requires a Statement of Minimum Revenue Position, which is the amount set aside from revenue for the repayment of debt principal.

1.3 Based on the guidance in the Treasury Management Code, the reporting arrangements of the 2019/20 Treasury Management Strategy will require a full meeting of the Council to:-

- agree and maintain a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

- agree and maintain treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- agree an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for 2019/20;

- nominate the Governance and Audit Committee, on behalf of the Council, to receive an annual performance report covering activities during the previous year;

- nominate the Cabinet Member for Resources to receive a mid-year report covering activities during the year and the ongoing review of counter parties;

- delegate responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions to the Executive Director (Resources); and,

- delegate the role of scrutiny of treasury management strategy and policies to the Governance and Audit Committee.

1.4 The Treasury Management Strategy for 2019/20 is based upon the Executive Director (Resources) views on interest rates, supplemented with leading market forecasts provided by the Council's treasury management advisors (Arlingclose). The Economic background and interest rate forecasts that form the basis of this strategy report can be found in Annex 1.

1.5 On 10 January 2019, the Council held £245.793m of total gross debt (including Private Finance Initiative schemes, Finance Leases and Transferred debt) and £62.839m of investments. This is set out in further detail at Annex 2. Forecast changes in these sums are shown in the balance sheet analysis in the below table:

Table 1 - Balance sheet summary and forecast

	31/03/18 Actual £m	**31/03/19 Estimate £m**	**31/03/20 Forecast £m**	**31/03/21 Forecast £m**	**31/03/22 Forecast £m**
Total Capital Financing Requirement (CFR) *(Including "Other debt" of PFI and finance leases)*	**275.444**	**269.841**	**265.617**	**261.265**	**255.025**
Less: Other debt CFR	-137.706	-135.881	-133.925	-131.868	-129.758
Loans CFR	**137.737**	**133.959**	**131.692**	**129.396**	**125.267**
Less: External borrowing (excludes PFI and Finance leases)	-118.572	-113.568	-113.563	-113.558	-112.406
Internal borrowing	**19.165**	**20.392**	**18.129**	**15.838**	**12.861**
Less: Usable reserves	-40.015	-35.015	-30.015	-25.015	-20.015
Less: Working capital	-32.412	-32.412	-32.412	-32.412	-32.412
Investment forecast	**-53.262**	**-47.035**	**-44.298**	**-41.589**	**-39.566**

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

1.7 The Councils current capital expenditure plans do not currently imply any need to borrow over the forecast period. The Councils investment balances are forecast to fall by £7.469m over the forecast period.

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

1.9 Generally, the Council does not borrow in excess of its Capital Financing Requirement. However, there may be occasions when it may be advantageous to borrow at prevailing interest rates, compared to the levels expected in the future. In such circumstances, the Council's borrowing could exceed the Capital Financing Requirement in the short-term. The Council will ensure that the Capital Financing Requirement is not exceeded over its three-year planning period.

1.10 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2 - Liability benchmark

	31/03/18 Actual £m	31/03/19 Estimate £m	31/03/20 Forecast £m	31/03/21 Forecast £m	31/03/22 Forecast £m
Treasury CFR (excluding PFI and finance leases)	137.737	133.959	131.692	129.396	125.267
Less: Usable reserves	-40.015	-35.015	-30.015	-25.015	-20.015
Less: Working capital	-32.412	-32.412	-32.412	-32.412	-32.412
Plus: Minimum investments	10	10	10	10	10
Liability Benchmark	**75.310**	**76.532**	**79.265**	**81.969**	**82.840**
Forecast borrowing (excludes PFI, finance leases and transferred debt)	118.572	113.568	113.563	113.558	112.406
Forecast Borrowing exceeds Liability Benchmark	**43.262**	**37.036**	**34.298**	**31.594**	**29.566**

1.11 Following on from the balance sheet forecasts in Table 1 above, the long-term liability benchmark assumes capital expenditure is funded by internal borrowing. The table above shows that the Council expects to remain borrowed above its liability benchmark. This is because cash flows to date have been below the assumptions made when the loans were taken out.

2. BORROWING STRATEGY

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

2.2 The Council currently holds £113.568m of treasury management loans, a decrease of £5.004m on the previous year, as a LOBO was repaid early to make ongoing revenue savings. The balance sheet forecast in Table 1 shows that the Council does not expect to need to borrow in 2019/20. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the treasury management authorised limit for borrowing of £180m.

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

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

2.5 Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

2.6 The Executive Director (Resources) will take appropriate independent advice and adopt a flexible and pragmatic approach to the borrowing requirement. When circumstances change, any relevant decisions will be reported to the Cabinet Member for Resources.

2.7 The new borrowing estimate for 2019/20 is based on current service provision. At present, there are no new borrowing costs built into the 2019/20 treasury management budget as the Council plans to use its internal funds. The borrowing estimate does however include the credit arrangements required for the Council's Private Finance Initiative schemes which are built into Council wide budgets.

3. SOURCES OF BORROWING AND IMPLICATIONS

3.1 The approved sources of long term and short term borrowing the Council will keep under review are:-

- Public Works Loans Board and any successor body;
- Internal;
- Local authorities/police and fire authorities;
- Any institution approved for investments (see investment strategy);
- Any other bank or building society authorised to operate in the UK;
- Any other UK Public Sector body;
- UK public and private sector pension funds (except the Council's local pension fund);
- Capital market bond investors; and
- UK Municipal Bonds Agency plc and any other special purpose companies created to enable joint local authority bond issues.

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

- operating and finance leases;
- hire purchase;
- Private Finance Initiative; and,
- Sale and leaseback.

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

3.4 The Council has £6m exposure to Lender's Option Borrower's Option loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council currently has one of these type of loans in the option period but as yet it has not been exercised. Although the Council understands that the lenders are unlikely to exercise their options in the current low interest rate environment, these loans present an element of potential refinancing risk to the Council. Loans which could be called in 2019/20 are therefore regarded as short-term borrowing. The Council will take the option to repay the loan at no cost if it has the opportunity to do so. The revised terms of a loan will not be accepted unless they are beneficial to the Council.

3.5 The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the Public Works Loan Board. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the Loan Board for two reasons:

- Borrowing authorities may be required to provide bond investors with a guarantee over the very small risk that other local authority borrowers default on their loans; and
- There will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Any decision to borrow from the Agency will therefore be the subject of a separate report to the Cabinet Member for Resources.

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

4. DEBT RESCHEDULING

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

4.2 In consultation with Arlingclose, the Council will continue to monitor the overall debt portfolio in order to identify a possible range of suitable options for early repayment of debt. Any borrowing and rescheduling activity will be reported in accordance with the reporting requirements set out in this Strategy.

5 TREASURY MANAGEMENT INVESTMENT STRATEGY

5.1 The Council holds treasury management investment funds representing income received in advance of expenditure plus balances and reserves held. In 2018/19 to date the Council’s investment balance has ranged between £48.237m and £65.317m with the average being £58.538m. The treasury management investment balances held at the time of writing this report on 10 January 2019 are £32.389m detailed in Annex 2. The forecast closing investment balances for 31 March 2019 is £47.035m using the liability benchmark method of calculation advised by Arlingclose and assumes levels of working capital and reserves as detailed in Table 1 of this report.

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

5.3 If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £35.000m that is available for longer-term investment. The Council has £19.849m invested long term in 2018/19 to date and has plans to increase this to £28.849m for 2019/20 which will leave scope for further additional long term investments of £6.151m in future. A dwindling proportion of the Council's surplus cash remains invested in short-term unsecured bank deposits, and money market funds.

5.5 Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by continuing to account for these investments at amortised cost.

5.6 *Investment Counterparties*

5.6.1 The Council may invest its surplus funds with any of the counterparties listed below, subject to the maximum cash and time limits determined by Arlingclose throughout the year:

- Banks and other organisations whose lowest published long-term credit rating of A- or above (Banks Secured and Unsecured);
- Government;
- UK Local Authorities;
- UK registered providers of social housing;
- Pooled Funds and Real Estate Investment Trusts;
- UK Building Societies without credit ratings;
- Corporates;
- Money market funds;
- other pooled funds including Property Funds (External Funds); and,
- Any other organisation, subject to an external credit assessment and specific advice from Arlingclose.

5.6.2 The Council's current lending list that details the cash and time limits set per Counterparty is shown in Annex 3. The following criteria suggested by Arlingclose was used in setting the councils lending limits:

- No more than 5% of total investments invested in each unsecured bank and building society name/group
- No More than 10% of total investments invested in each money market fund
- No more than 50% of total investments should be held in money market funds
- £1m per each unrated building society

5.6.3 Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.6.4 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks are all classed as Banks unsecured deposits. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below paragraph 5.6.13 for arrangements relating to operational bank accounts.

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

5.6.6 Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral banks are not subject to bail in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.6.7 Registered Provider loans are loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

5.6.8 Deposits to corporate firms such as bonds and commercial paper issued by companies other than banks and registered providers, are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or as part of a diversified pool in order to spread the risk widely.

5.6.9 Pooled funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same day liquidity and very low or no volatility will be used as an alternative to instant access accounts, while pooled funds whose value changes with market process and have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. They allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity, but are available for withdrawal after a notice period, their performance and continued suitability will be monitored regularly.

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

5.6.11 The Council may also invest cash with other organisations, for example by making loans to small businesses. Due to their higher perceived risk of unrated business, such investments may provide considerably higher rates of return. They will however only be made following a favourable credit assessment and on specific advice from Arlingclose. The Cabinet Member for Resources will also be consulted on these matters as part of the ongoing review of counter parties.

5.6.12 The Council may take decisions to make investments or loans to third parties for non-Treasury Management purposes. These investments will be for purposes other than achieving an optimum return for example, social value. If any such investments are to be made, appropriate credit assessments will be made where necessary and they will be built into the Councils Investment strategy which will be reported to the Cabinet on 13 February 2019.

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

6.6 *Creditworthiness Policy*

6.6.1 Since July 2011, the Council has used the creditworthiness service provided by Arlingclose. Credit ratings are obtained and monitored by the Councils treasury management team in consultation with Arlingclose, who notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made;
- Any existing investments that can be recalled or sold at no cost will be; and,
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.6.2 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as ‘rating watch negative’ or ‘credit watch negative’) so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.6.3 The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

7 TREASURY MANAGEMENT INDICATORS

7.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

a) **Security and the credit risk Indicator**

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

Credit risk indicator	Target	Actual 10/01/19
Portfolio average credit rating	A	AA

b) **Liquidity**

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

c) **Interest Rate Indicator**

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

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0
Upper limit on one-year revenue impact of a 1% fall in interest rates	£400,000

The interest rate indicator has been calculated on the assumption that as the Council currently has no variable rate borrowing, there will be no interest rate risk if interest rates rise as interest payable on loans will remain the same. The Council however would gain on interest payable on its short term investments. The impact of a 1% fall in interest rates has been calculated based on the short term investment balances on 10 January 2019.

d) **Maturity structure of borrowing**

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	50%

The maturity date of borrowing is the earliest date on which the lender can demand repayment. Therefore the Councils £6.000m LOBO that is currently "on call" will fall within the "under 12 months" period.

e) **Price risk indicator – principal sums invested for longer than a year**

The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of its investments if it struggles to meet its day to day cash flow demands. The limits on the long-term principal sum invested will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£35m	£35m	£35m

8 OTHER CIPFA CODE REQUIREMENTS

8.1 Financial Derivatives is the term given to borrowing or investments where its value is based on the performance of another asset - such as stocks or bonds. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

8.2 The Council will only use standalone financial derivatives (e.g. swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial and credit risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 Financial derivative transactions may be arranged with any counterparty that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

8.4 **Markets in Financial Instruments Directive (MIFID)**: The Council has opted up to profession status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Executive Director (Resources) believes this to be the most appropriate status.

9 2019/20 MINIMUM REVENUE PROVISION STATEMENT

9.1 The Minimum Revenue Provision is the minimum amount of money the Council must set aside each year to repay debt. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on local authorities to make a prudent provision for debt redemption.

9.2 The Council implemented the revised Minimum Revenue Provision guidance in 2008/09, and will continue to assess its Minimum Revenue Provision for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003. The background and options available to the Council are included within Annex 3 to this Strategy.

9.3 The major proportion of the Minimum Revenue Provision for 2019/20 will relate to the Council's historic debt liability. As the Council is free to determine its own method for calculating a prudent provision it is proposed that it would be appropriate, affordable and reasonable to repay a fixed amount each financial year (calculated at 2% of the outstanding debt balance at 31 March 2014). This would equate to a 50 year repayment period. This 50 year repayment period is considered a reasonable average assumption for the lives of the assets funded by this expenditure. The Minimum Revenue Provision policy is contained in Annex 3 of this Strategy.

9.4 For new prudential borrowing the Minimum Revenue Provision will be determined by charging the expenditure over the expected useful life of the relevant asset starting in the year after the asset becomes operational.

9.5 For accounting purposes, estimated life periods for assets will be determined by the Executive Director (Resources) in accordance with national guidance, although, in some circumstances, it may be appropriate to determine alternative useful life periods and prudent Minimum Revenue Provision in exceptional circumstances where the recommendations of the guidance would not be appropriate.

9.6 As some types of capital expenditure incurred by the Council cannot directly be related to an individual asset, asset lives will be assessed on the basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, investment will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

9.7 Where the Council borrows to meet expenditure which is treated as capital expenditure by virtue of a capitalisation direction, an estimated life period of 20 years is specified in the guidance, since the Government does not wish to encourage reliance upon such practice.

9.8 The Council may consider from time to time making additional contributions to the Minimum Revenue Provision when it is deemed prudent to do so by the Executive Director (Resources).

9.9 Wherever possible, the Council will also consider using capital receipts to finance short-term assets, leaving borrowing to finance the longer-term assets. This will therefore assist in matching loan duration with estimated asset life.

9.10 The Minimum Revenue Provision in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards based Accounting Code of Practice will be in line with the method outlined in paragraph 9.4 above.

9.11 The Executive Director (Resources) will continue to work with the treasury management advisors throughout the year to ensure this Minimum Revenue Provision Policy remains prudent and helps to maximise the Council's use of resources.

10. TRAINING

10.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice requires the responsible officer to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

10.2 As part of the reporting processes set out in this report, Members will be provided with appropriate support to ensure that they understand fully their roles and responsibilities.

10.3 All officers involved in the Treasury Management function receive initial training and further updates as appropriate to ensure that they have the necessary skills required to fulfil their duties. Officers also regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

11 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

11.1 The Council uses Arlingclose as its external treasury management advisors, but recognises that responsibility for treasury management decisions remains with the Council at all times and will therefore ensure that undue reliance is not placed upon its external service providers.

11.2 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 the advisors' appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

<u>Annexes:-</u>

Annex 1	Economic Background and Interest Rate Forecast
Annex 2	Existing Debt and Investment Position 10 January 2019
Annex 3	Councils Lending list and limits at 23 January 2019
Annex 4	Background to the Draft Minimum Revenue Provision Policy Statement 2019/20

APPENDIX A - ANNEX 1

ECONOMIC BACKGROUND AND INTEREST RATE FORECAST (JANUARY 2019)

Economic Background

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.

Following a weak first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. In November 2018 the MPC maintained Bank Rate at 0.75% while the Inflation Report showed that compared to the August report further interest rate increases may be required to bring inflation down to the 2% target over the forecast horizon.

The headline rate of UK Consumer Price Inflation fell back to 2.4% year-on-year in September 2018 from 2.7% in August, as higher import and energy prices continued to hold inflation above the Bank of England target. Labour market data is positive. The unemployment rate fell to 4%, its lowest level since 1975.

While external inflationary pressures from energy costs and import prices are expected to subside, domestic pressures are projected to build over the forecast horizon with the balance of these effects likely to keep inflation above the Bank of England's target throughout most of their forecast horizon, meaning that strong real income growth is unlikely to materialise any time soon.

Credit Outlook

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest Rate Forecast

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

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates.

A more detailed economic and interest rate forecast provided by Arlingclose is shown in table overleaf. The underlying assumptions of Arlingclose's interest rate forecasts are available upon request.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.17**
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.65**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.80**	**1.00**	**1.10**	**1.20**	**1.30**	**1.30**	**1.25**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.17**
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.68**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.05**	**1.25**	**1.35**	**1.40**	**1.50**	**1.45**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.37**
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.69**
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.15**	**1.20**	**1.25**	**1.35**	**1.40**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.54**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.60**	**1.65**	**1.65**	**1.70**	**1.75**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.55**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.90**	**1.95**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.98**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.80**	**1.85**	**1.85**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.88**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**

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

APPENDIX A - ANNEX 2

EXISITING DEBT AND INVESTMENT POSITION 10 JANUARY 2019

	Actual Portfolio £m	Average Rate %
External borrowing:		
Public Works Loan Board	101.268	4.529
LOBO loans from banks	6.000	3.710
Other loans	6.300	4.080
Total external borrowing	**113.568**	**4.461**
Other long-term liabilities:		
Private Finance Initiative	130.370	n/a
Finance Leases	0.128	2.840
Transferred Debt	1.727	variable
Total other long-term liabilities	**132.225**	**n/a**
Total gross external debt	**245.793**	**n/a**
Treasury investments:		
Banks & building societies (unsecured)	10.000	0.960
Corporate bonds	3.301	3.309
Supernational bonds	4.047	3.547
Money Market Funds	27.540	0.732
Fund Managers	10.000	4.720
Local Authorities	5.000	1.000
Other deposits	2.500	3.500
Total treasury investments	**62.389**	**1.859**
Net debt	**183.404**	**N/A**

APPENDIX A- ANNEX 3

LENDING LIST AND LIMITS AT 23 JANUARY 2019

Knowsley Credit List as at:	23/01/2019				
		AUTHORITY SPECIFIC LIMITS			
Counterparty	Country of Domicile	Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period	Secured Limit
UNITED KINGDOM: BANKS					
BANK OF SCOTLAND PLC	GB			6 months	
LLOYDS BANK PLC	GB		£4m	6 months	
BARCLAYS BANK PLC	GB			100 days	
BARCLAYS BANK UK PLC	GB		£5m	100 days	
CLOSE BROTHERS LTD	GB	£4m		6 months	
GOLDMAN SACHS INT'L BANK	GB	£4m		100 days	
HSBC BANK PLC	GB			6 months	
HSBC UK BANK PLC	GB		£4m	6 months	
NATIONAL WESTMINSTER BANK	GB			100 days	
ROYAL BANK OF SCOTLAND PLC/T	GB			100 days	
ULSTER BANK LIMITED	GB		£4m	100 days	
SANTANDER UK PLC	GB		£4m	6 months	
STANDARD CHARTERED BANK	GB	£4m		6 months	
UK: BUILDING SOCIETIES					
DARLINGTON BUILDING SOCIETY	GB	£1m		100 days	
COVENTRY BUILDING SOCIETY	GB	£4m		6 months	
FURNESS BUILDING SOCIETY	GB	£1m		100 days	
HARPENDEN BUILDING SOCIETY	GB	£1m		100 days	
HINCKLEY & RUGBY BUILDING SOCIETY	GB	£1m		100 days	
LEEDS BUILDING SOCIETY	GB	£4m		100 days	5 Years
LEEK UNITED BUILDING SOCIETY	GB	£1m		100 days	
MANSFIELD BUILDING SOCIETY	GB	£1m		100 days	
MARSDEN BUILDING SOCIETY	GB	£1m		100 days	
MELTON MOWBRAY BUILDING SOCIETY	GB	£1m		100 days	
NATIONAL COUNTIES BUILDING SOCIETY	GB	£1m		100 days	
NATIONWIDE BUILDING SOCIETY	GB	£4m		6 months	
NEWBURY BUILDING SOCIETY	GB	£1m		100 days	
SCOTTISH BUILDING SOCIETY	GB	£1m		100 days	
TIPTON & COSELEY BUILDING SOCIETY	GB	£1m		100 days	
UK: LOCAL AUTHORITIES					
ALL LOCAL AUTHORITES (EXCLUDING NORTHAMPTONSHIRE COUNTY COUNCIL)		£6m		1 year	
ALL POLICE AUTHORITIES		£6m		1 year	

OTHER INSTITUTIONS AND FUND MANAGERS FOR LONG TERM INVESTMENTS IN CONSULTATION WITH ARLINGCLOSE	Country of Domicile	All Lending limits to be agreed with Arlingclose	Group Cash Limit (£/%)	Max Investment Period (in consultation with Arlingclose)
LCR FINANCE PLC (UK)	EN			15 years
EUROPEAN INVESTMENT BANK	LX			25 years
LEEDS BUILDING SOCIETY (BOND)	GB			5 years
UK GOVERNMENT	GB			50 years

Money Market Funds on Arlingclose List	Country of Domicile	COUNCIL SPECIFIC LIMITS Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
ABERDEEN ASSET MANAGEMENT	LX	£137.9m	Each money Fund - up to a max of £6m or lower if the individual cash limit is less than £6m.	n/a - short term cash flow
BLACKROCK	IR	£182.8m		n/a - short term cash flow
BNP PARIBAS ASSET MANAGEMENT	LX	£7.5m		n/a - short term cash flow
DWS	IR	£36.8m		n/a - short term cash flow
FEDERATED INVESTORS (UK)	GB	£17.8m		n/a - short term cash flow
FIDELITY INTERNATIONAL	IR	£8.6m		n/a - short term cash flow
GOLDMAN SACHS ASSET MANAGEMENT	IR	£59.1m		n/a - short term cash flow
AMUNDI INVESTMENTS	LX	£16.7M		n/a - short term cash flow
INSIGHT INVESTMENTS	IR	£114.1		n/a - short term cash flow
AVIVA INVESTORS	IR	£105.3		n/a - short term cash flow
INVESTCO AIM	IR	£26.4		n/a - short term cash flow
AVIVA INVESTORS GOV	IR	£79.3		n/a - short term cash flow

EXTERNAL FUND MANAGERS	
M & G GLOBAL DIVIDEND FUND	Investment period advised by Arlingclose
UBS MULTI ASSET FUND	Investment period advised by Arlingclose
SHRODERS INCOME MAXIMISER FUND	Investment period advised by Arlingclose
CITY FINANCIAL MULTI ASSET DIVERSIFIED FUND	Investment period advised by Arlingclose
CCLA PROPERTY FUND	Investment period advised by Arlingclose
NETWORK HOUSING GROUP	Investment period advised by Arlingclose

APPENDIX A - ANNEX 4

BACKGROUND TO THE DRAFT MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20

1. What is Minimum Revenue Provision?

1.1. Each year, the Council borrows money in order to finance some of its capital expenditure. The rules for Minimum Revenue Provision are set out in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and require local authorities to set aside each year, from their revenue account, a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to 'have regard' to such guidance under Section 21(1A) of the Local Government Act 2003.

1.2. The broad aim of a prudent amount is to ensure that the debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant.

2. Government Guidance

2.1. The Guidance offers four main options under which Minimum Revenue Provision could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to "have regard" to the guidance therefore means that:-

1. although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its Minimum Revenue Provision to be prudent; and,

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1 - Regulatory Method

Under the previous regulations, Minimum Revenue Provision was set at a uniform rate of 4% of the Capital Financing Requirement on a reducing balance method (which in effect meant that Minimum Revenue Provision charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of the new approach.

Option 2 - Capital Financing Requirement Method

This is a variation on Option 1 and is based upon a charge of 4% of the aggregate Capital Financing Requirement without any adjustment for certain factors which were brought into account under the previous statutory Minimum Revenue Provision calculation. The Capital Financing Requirement is the measure of an authority's outstanding debt liability as depicted by its balance sheet.

Option 3 - Asset Life Method

This method may be applied to most new capital expenditure. Under this Option, it is intended that Minimum Revenue Provision should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages to this Option:-

- longer life assets (e.g. freehold land) can be charged over a longer period than would arise under Options 1 and 2; and,

- no Minimum Revenue Provision charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being a 'Minimum Revenue Provision holiday'). This flexibility is not available under Options 1 and 2.

There are two methods of calculating charges under Option 3:-

a. equal instalment method – equal annual instalments; or,

b. annuity method – annual payments gradually increase during the life of the asset.

Option 4 - Depreciation Method

Under this option, Minimum Revenue Provision charges are linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions). This is a more complex approach than Option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under Option 3.

3 2019/20 Minimum Revenue Provision Policy

3.1 For prudential borrowing taken out prior to the introduction of the Prudential Code in 2008/09, the Council has determined that a fixed amount calculated at 2% of the outstanding balance as at 2014 would be prudent. This would equate to a 50 year repayment period which is considered as reasonable average assumption for the lives of the assets funded by this expenditure. The annual payment is therefore £1.860m per year.

3.2 For prudential borrowing taken out from 2008/09 onwards, the minimum revenue provision will be determined by charging the expenditure over the expected useful life of the relevant asset in line with Option 3 of the guidance. The charge will be calculated on an annuity basis with the interest rate determined by the relevant Public Works Loan Board rate for the life of the asset. For example, a building would be deemed to have a useful life of 50 years so the 50 year annuity Loan Board rate would be used to calculate the annual payments.

3.3 For assets acquired under Private Finance Initiatives or finance leases, the Minimum Revenue Provision will be calculated in the same way as all other assets as detailed in paragraph 3.2 above.

APPENDIX B

Equality Impact Assessment

Service area: Financial Management Service	**Head of Service:** Head of Financial Management	**Completed by:** Cathy Cairns	**Date:** 24 January 2019
Title:	Treasury Management Strategy 2019/20		
Brief description:	The report presents the Council's 2019/20 Treasury Management Strategy, including the Treasury Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy		
Give details, with evidence, of the impact of the policy/plan/project on each of the protected characteristics in relation to the general duty: 1. Eliminate discrimination, harassment and victimisation 2. Advancing equality of opportunity between people who share protected characteristics and those who don't share it 3. Foster good relations between people who share a protected characteristic and those who don't			
Does the proposal have a direct impact on people?	No. The decisions in this report have no direct impact on people.		
If yes, please complete the grid below. If no, consider whether or not an Equality Impact Assessment is necessary, if not state why not and exit process	An Equality Impact Assessment is not necessary as there are no outcomes that affect people of different groups and the decisions do not discriminate against any particular group of people.		