ANNEX P

# MILTON KEYNES COUNCIL

# TREASURY MANAGEMENT STRATEGY

# 2018/19
# TO
# 2022/23

## Content Page

Pg No.

# 1 INTRODUCTION

## 1.1 Background

1.1.1 Under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice, the Council is required to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (DCLG) issued Guidance on Local Authority Investments that requires the Council to approve an investment strategy before the start of each financial year. This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and DCLG Guidance.

1.1.2 Both CIPFA and DCLG have consulted on a number of changes to the Codes and issued Guidance. CIPFA have published new 2017 editions of *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* and the *Prudential Code for Capital Finance in Local Authorities* but have not yet issued updated sector specific guidance notes, which include the treasury management indicators for local authorities. This Treasury Management Strategy has therefore been prepared under the requirements of the 2009 or 2011 Codes as appropriate.

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

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

1.1.3 CIPFA defines treasury management as:

*"The management of an organisation's 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."*

1.1.4 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

## 1.2 Reporting Requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year (four will be reported by this Council as set out below), which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by Cabinet.

1.2.2 **Treasury Management Strategy (This report)** – This report covers:

- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how investments and borrowings portfolios are to be organised); and
- an investment strategy (the parameters on how investments are to be managed).

1.2.3 **Prudential and Treasury Indicators Report (As part of the Budget Report) -** This report covers:

- the capital plans (including prudential indicators);
- the treasury indicators relevant to this report.

1.2.4 **A Mid Year Treasury Management Report** – This will update councillors with the progress of the capital position, amending prudential indicators as necessary, an update of the performance of the treasury or whether any policies require revision (this Council currently also provides quarterly updates).

1.2.5 **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

# 2 CAPITAL PRUDENTIAL INDICATORS FOR 2018/19 – 2022/23

## 2.1 Context

2.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist in decisions for capital expenditure plans.

2.1.2 Major items of capital expenditure (provisional) within this planning horizon and included in the prudential indicators calculations are;

- investment in infrastructure assets;
- a new waste processing facility.

2.1.3 The Prudential and Treasury Indicators are to be set alongside the overall budget setting process in February. Once set, those indicators will be applied in the context of all treasury management decisions.

## 2.2 Minimum Revenue Provision (MRP)

2.2.1 The Council is required to set aside an element of the accumulated General Fund borrowing requirement used to 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).

2.2.2 DCLG have issued regulations which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils but these are not prescriptive, and Councils are free to set their own approach so long as there is a prudent provision. Council is recommended to approve the approach set out in Appendix M(ii).

# 3 TREASURY MANAGEMENT STRATEGY

## 3.1 Context

3.1.1 The Council's capital expenditure plans are to be set out in the Capital Programme as part of the overall budget setting process. 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. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This report has been prepared alongside the Prudential Indicators report to provide an integrated treasury strategy.

## 3.2 Current Portfolio Position

3.2.1 The Council's forecast treasury position at 1st April 2018 and forward projections are summarised below. Table 1 shows the actual external debt (the treasury operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), and any over or under borrowing.

**Table 1 – Current Portfolio Position**

| £m | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---|---|---|---|---|---|
| **External debt** | | | | | |
| External debt at 1 April | 488.478 | 479.502 | 466.078 | 459.051 | 449.318 |
| Repayment of borrowing during year | (7.666) | (7.087) | (7.027) | (9.733) | (10.097) |
| Other borrowing – tariff cashflow | (1.310) | (6.337) | - | - | - |
| **External debt at 31st March (1)** | **479.502** | **466.078** | **459.051** | **449.318** | **439.221** |
| **Capital Financing Requirement** | **703.289** | **702.521** | **696.790** | **691.308** | **673.623** |
| ***Under / (over) borrowing*** | ***223.787*** | ***236.443*** | ***237.739*** | ***241.990*** | ***234.402*** |
| **Total Investments at 31st March (2)** | **95.000** | **75.000** | **65.000** | **55.000** | **50.000** |
| *Investment change* | - | *(20.000)* | *(10.000)* | *(10.000)* | *(5.000)* |
| **Net Debt (1 – 2)** | **384.502** | **391.078** | **394.051** | **394.318** | **389.221** |

3.2.2 Within the prudential indicators 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 total debt, net of any investment balances, 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 2018/19 and the following two financial years (shown as net debt above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.2.3 The forecast shown in Table 1 shows the forecast debt for Milton Keynes Council is below its actual and forecast CFR and is therefore only borrowing for capital purposes.

### 3.3 Treasury Indicators

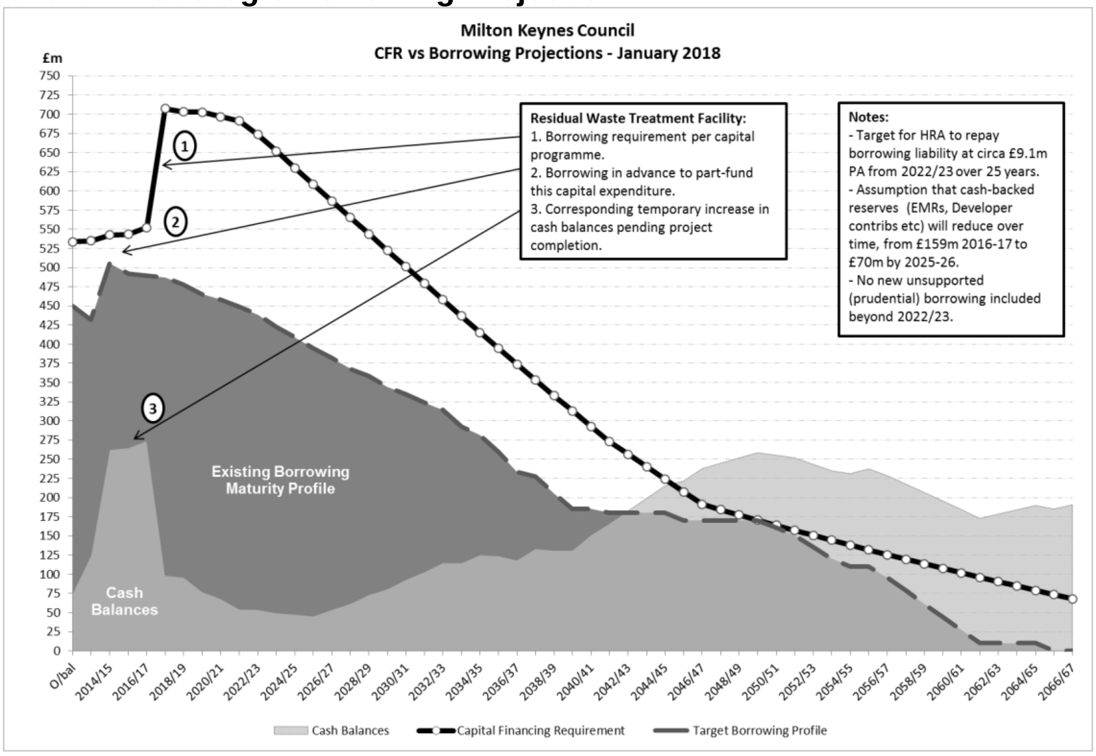
3.3.1 Prudential and Treasury Indicators are set alongside the overall budget setting process in February as a single comprehensive suite. Once set, those indicators will be applied in the context of all treasury management decisions.

### 3.4 Strategic Forward Planning

3.4.1 To assist with its long-term Treasury Management Strategy, the Council has developed a financial model to forecast the net borrowing requirement per year over a 50-year period. This model will be used to identify optimum borrowing opportunities, ensuring the timeframe for any new borrowing is matched to the provisions set aside for repayment. The margin by which borrowing costs outweigh investment returns is known as a cost of carry, and this strategic approach aims to limit this risk exposure.

3.4.2 Chart 1 below shows the latest Capital Financing Requirement (CFR) projections against the existing borrowing portfolio, overlaid with expected investment balances.

**Chart 1 – Strategic Borrowing Projection**



3.4.3 Chart 1 illustrates how this strategic approach aims to limit the margin by which borrowing costs outweigh investment returns - known as a cost of carry – and counterparty exposures, by running down cash balances in the medium term to reduce these risks.

## 3.5 External Funds

3.5.1 The Council has established a small number of Limited Liability Partnership's (LLP) and a limited company to trade with external organisations. The purpose, aims and objectives of these entities are linked to annual business plans approved by the Council. The entities will follow the Accounting Policies and Principles of the Council, including the principles set out in this strategy.

3.5.2 Unless otherwise agreed by the respective management boards, any surplus funds may be investment either; with the Council's bankers on an overnight basis only, or in line with the Council's policy of investments (where supported by robust cashflow projections).

3.5.3 In accordance with the Local Government Act 2003, the LLP's are deemed as 'external funds' and as such any treasury management activities undertaken on behalf of the entities will be treated as separate from the Council.

3.5.4 Should the Council establish any further entities of a similar nature, they will be treated in a consistent manner for treasury purposes.

# 4 EXTERNAL CONTEXT

## 4.1 Economic Background

4.1.1 The major external influence on the Council's Treasury Management Strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

4.1.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

4.1.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

## 4.2 Credit Outlook

4.2.1 High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

4.2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

4.2.3 The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

## 4.3 Interest Rate Forecast

4.3.1 The Council's treasury management advisor's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

4.3.2 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to forecast s are broadly balanced on both sides. The central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

4.3.3 A more detailed economic and interest rate forecast provided by the Council's treasury management advisor's is attached at Appendix M(iii).

# 5 BORROWING STRATEGY

## 5.1 Context

5.1.1 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 remains prudent despite low borrowing rates, as investment returns are low and counterparty risk is high.

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

## 5.2 Approach to borrowing

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

5.2.2 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 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. The Council will monitor this 'cost of carry' and undertake breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.2.3 Alternatively, the Council may consider forward starting loans during 2018/19 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.

5.2.4 In addition, the Council may borrow on a short-term basis to cover unplanned cash flow shortage where appropriate.

5.2.5 Against the context above and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Corporate Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where intelligence suggests 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.

- Where intelligence suggests that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected 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 were still relatively cheap.

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

5.2.7 The Council holds one Lender's Option Borrower's Option (LOBO) loan to the principal value of £5m, 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. This LOBO loan has an option date during 2018/19 (rolling six month option), and although the Council understands that the lender is unlikely to exercise this in the current low interest rate environment, there remains an element of refinancing risk. The Council will consider the option to repay this LOBO loan at no cost if it has the opportunity to do so.

**PWLB Certainty Rates**

5.2.8 In November 2012 HM Treasury released details of the PWLB Certainty Rate discount on PWLB loans. This offers a 20 basis point reduction on PWLB loans to eligible authorities (Milton Keynes Council continues to be eligible) subject to an annual data return. The Interest Rate Forecast included at Appendix M(iii) has been adjusted accordingly to reflect this discount.

**HRA Self Financing**

5.2.9 The 1st April 2012 saw the introduction of the Housing Self-Financing regime. As previously reported this Council adopted a single pool approach, whereby the Council manages its overall debt as a single portfolio and apportions costs to the General Fund and HRA at a consolidated rate in proportion to the debt held by each.

5.2.10 By adopting a single pool approach to apportioning debt charges, any changes to the overall Council debt pool will impact upon the consolidated rate. The Corporate Director Resources will monitor this impact when assessing borrowing options.

### 5.3 Treasury Management Limits on Activity

5.3.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and/or improve performance. These indicators are:

- **Upper limits on variable interest rate exposure.** This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- **Upper limits on fixed interest rate exposure.** This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **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.

5.3.2 These indicators shall be set in the Prudential and Treasury Indicators report presented alongside the budget setting process.

### 5.4 Borrowing in Advance of Need

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

5.4.2 Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 5.5 Debt Rescheduling

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

5.5.2 Primary reasons for any rescheduling to take place will include:

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

5.5.3 Details of any rescheduling undertaken will be reported to Cabinet at the earliest meeting following its action.

# 6 ANNUAL INVESTMENT STRATEGY (AIS)

## 6.1 Context

6.1.1 Both the CIPFA Code and DCLG Guidance require Council's to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults as well as the risk of receiving unsuitably low investment income.

6.1.2 Given heightened risk and continued low returns from short-term unsecured bank investments, the Council will continue to seek diversity by keeping under review options for secure and/or higher yielding asset classes during the year. This is especially the case for funds available for longer-term investment. Approximately 60% (January 2018) of the Council's surplus cash is currently invested in short-term government deposits, certificates of deposits and money market funds; however three quarters of this sum relates to cash that will be applied to fund the Residual Waste Treatment Facility acquisition, which was originally planned to be open in September 2016 but has been delayed. This diversification will represent a continuation of the strategic approach that has been implemented since 2015/16.

## 6.2 Investment Portfolio Limits

6.2.1 Portfolio limits are set to manage potential exposure to loss of investment principal. Were losses to be incurred, this would present an immediate pressure against revenue reserves. The Council's revenue reserves that would be potentially available to cover investment losses are forecast to be £84m on 31st March 2018. Approximately £28m of these reserves have been committed as part of the 2017-18 budget process or are held for known commitments. No more than £15m will be put at risk in the case of a single default, so the maximum that will be lent to any single organisation (other than Government institutions) will be set at £15m.

6.2.2 A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts.

**Table 2 - Counterparty Limits**

| | Limit |
|---|---|
| UK Central Government (including local authorities) | Unlimited |
| Any single organisation or group under same ownership, except Government institutions | Max. £15m each |
| Any group of pooled funds under the same management | Max. £15m each |
| Negotiable instruments held in a broker's nominee account | Max. £150m each |
| Foreign countries | Max. £80m per country |
| Registered Providers | Max. £40m in total |
| Investments with Building Societies | Max. £80m in sector<br>[No more than 20% unrated] |
| Loans to unrated corporates | £25m in total |
| Money Market Funds | £150m in total |

6.2.3 Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

6.2.4 The Council may invest in products that are subject to market valuations (bond funds, property funds etc) that represent gains or losses, but such fluctuations would only be realised upon withdrawal. Where an investment carries a risk of fluctuation to the capital sum invested, the Council will divert a proportion of the interest received to a reserve provision. Should a capital loss be realised, this reserve may be called upon to mitigate the impact upon the general fund budget.

## 6.3 Counterparty Selection

6.3.1 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 is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors, including external advice, will be taken into account.

6.3.2 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. This may lead to suspension of institutions from further investments, recalling or redeeming existing investments at no cost where able to do so, or even consideration of recall or redemption at a cost.

6.3.3 Where a credit rating agency announces that a credit rating is on review for possible downgrade ("rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, officers may restrict duration of deposits 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.

6.3.4 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 (CDS) prices, financial statements, information on potential government support and reports in the quality financial press. 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.

6.3.5 The Council recognises that the responsibility for treasury management decisions remains with the Council at all times. Therefore the Corporate Director Resources is authorised to further restrict or relax the investment names, limits and durations in order to safeguard the Council's resources.

## 6.4 Approved Counterparties

6.4.1 The Council may invest its surplus funds with any of the counterparty types in Table 3 below, subject to maximum limits (per counterparty) and durations according to prevailing credit rating at the time of dealing.

**Table 3 - Approved Investment Counterparties and Limits**

<table>
<tr><th colspan="2" rowspan="2">Long Term Credit Rating</th><th colspan="2">Banks/Building Societies</th><th rowspan="2">Government</th><th rowspan="2">Corporates</th><th rowspan="2">Registered Providers</th></tr>
<tr><th>Unsecured</th><th>Secured</th></tr>
<tr><td>UK Govt</td><td>Max:<br>Up to:</td><td colspan="2">n/a</td><td>£ Unlimited<br>50 yrs</td><td colspan="2">n/a</td></tr>
<tr><td>AAA / Aaa</td><td rowspan="2">Max:<br>Up to:</td><td rowspan="2">£10m<br>5 yrs</td><td>£15m<br>20 yrs</td><td>£40m<br>50 yrs</td><td>£10m<br>20 yrs</td><td>£10m<br>20 yrs</td></tr>
<tr><td>AA+ / Aa1</td><td>£15m<br>10 yrs</td><td>£40m<br>25 yrs</td><td>£10m<br>10 yrs</td><td rowspan="3">£10m<br>10 yrs</td></tr>
<tr><td>AA / Aa2</td><td>Max:<br>Up to:</td><td>£10m<br>4 yrs</td><td>£15m<br>5 yrs</td><td>£40m<br>15 yrs</td><td>£10m<br>5 yrs</td></tr>
<tr><td>AA- / Aa3</td><td>Max:<br>Up to:</td><td>£10m<br>3 yrs</td><td>£15m<br>4 yrs</td><td>£40m<br>10 yrs</td><td>£10m<br>4 yrs</td></tr>
<tr><td>A+ / A1</td><td>Max:<br>Up to:</td><td>£10m<br>2 yrs</td><td>£15m<br>3 yrs</td><td>£15m<br>5 yrs</td><td>£10m<br>3 yrs</td><td rowspan="3">£10m<br>5 yrs</td></tr>
<tr><td>A / A2</td><td>Max:<br>Up to:</td><td>£10m<br>13 mths</td><td>£15m<br>2 yrs</td><td>£15m<br>5 yrs</td><td>£10m<br>2 yrs</td></tr>
<tr><td>A- / A3</td><td>Max:<br>Up to:</td><td>£10m<br>6 mths</td><td>£15m<br>13 mths</td><td>£15m<br>5 yrs</td><td>£10m<br>13 mths</td></tr>
<tr><td>None</td><td>Max:<br>Up to:</td><td>£1m<br>6 mths</td><td>n/a</td><td>£20m<br>25 yrs</td><td>£50k<br>5 yrs</td><td>£5m<br>5 yrs</td></tr>
<tr><td>AAA / Aaa<br>Pooled Funds</td><td></td><td colspan="5">Net Asset Value £1bn or greater: £15m / Net Asset Value less than £1bn: 0.50% per £50m / Property Funds Net Asset Value: 5% per £50m [all rounded up]</td></tr>
</table>

6.4.2 Unless specific concerns arise, pre-existing investments that temporarily exceed the limits above will be allowed to run until maturity when any excess principal amounts will be consolidated.

6.4.3 **Banks/Building Societies:** The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

6.4.4 **Banks/Building Societies Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

6.4.5 **Banks/Building Societies Secured:** Covered (collateralised) bonds, reverse repurchase agreements (REPO) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in risk. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

6.4.6 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

6.4.7 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company becoming insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

6.4.8 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

## 6.5 Extreme Market Conditions

6.5.1 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this may not be immediately 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, invested in government paper, or with other local authorities). This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

### 6.6 Council's Bankers

6.6.1 Should the long-term credit rating of the Council's incumbent bankers fall below A- / A3, the Council may continue to place up to a maximum of £15m on an instant-access overnight basis only. If enacted, this practice will be kept under daily review.

6.6.2 Contractual rights allow the Council to exit the banking contract at short notice if the bank's credit ratings fall below an acceptable level.

### 6.7 Financial Planning

6.7.1 For its cash flow generated balances, the Council will seek to utilise money market funds, business reserve accounts, short-notice accounts, and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest and liquidity.

6.7.2 Core investment funds (those not required to fund immediate cash flow requirements) may be deposited for longer periods, in line with the criteria detailed within this report and relevant indicators.

6.7.3 Prudent estimated investment returns for future years have been fed through into the Medium Term Financial Plan (MTFP).

### 6.8 Local Authority Mortgage Scheme (LAMS)

6.8.1 The Council may assess the viability of a Local Authority Mortgage Scheme (LAMS) whereby the Council provides assistance to first-time buyers in entering the housing market.

6.8.2 The Minimum Revenue Provision policy (Appendix M(ii)) and Specified and Non-Specified Investments assessment (Appendix M(iv)) include appropriate reference to this scheme, should the Council decide to pursue this.

### 6.9 End of Year Outturn Report

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

### 6.10 Policy on the use of external service providers

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

6.10.1 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.

## 6.11 Scheme of Delegation and Role of the Section 151 Officer

6.11.1 Please refer to Appendix M(iv) which sets out the responsibilities for treasury management.

## 6.12 Policy on Use of Financial Derivatives

6.12.1 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).

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

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

## 6.13 Property Fund for Temporary Accommodation

6.13.1 The Council has entered into an agreement to invest in the Real Lettings Property Fund managed by Resonance UK (a Social Investment Company) to provide up to 70 property units to address the urgent need for suitable temporary accommodation in Milton Keynes.

6.13.2 The Council's £5m investment (match-funded by £5m from Big Society Capital) will run for an initial term of five years. At the end of this period, there is an option to extend for a further two years, withdraw or buy out the match funder.

6.13.3 The rate of return will be linked to the overall performance of the fund. The Council's equity will also be a proportion of the overall fund, not the assets which are held in Milton Keynes.

6.13.4 The principal objective for this investment is the derived service benefit (the provision of temporary housing) rather than the return on the investment (the anticipated revenue interest and capital growth). This investment is classed as capital expenditure, and will be financed from prudential borrowing.

6.13.5 This investment still represents a form of treasury investment, but initiated by housing operational service needs.  As capital is at risk and subject to fluctuation, treasury risk management practices may be applied to minimise this risk.

6.13.6 The Council expects its investment to be returned in full, and with surpluses accruing from capital growth so no Minimum Revenue Provision (MRP) will be made.  The values of the fund and the underlying assets will be kept under review, which may lead to initiating an MRP charge in the future.

## APPENDIX M(i) – TREASURY MANAGEMENT POLICY STATEMENT

Treasury Management activity within this Council will be undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services (The TM Code).

1. This organisation defines its treasury management activities as:

   The management of the organisation's investment 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.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievements of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risks management.

In adopting the TM code, this Council shall apply the following four key principles:

1. This organisation will create and maintain, as the cornerstone for effective treasury management:

   i. A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities (this document);

   ii. Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement (this document) and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. Cabinet will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report afters its close, in the form prescribed in the TMPs.

## APPENDIX M(i) – TREASURY MANAGEMENT POLICY STATEMENT cont.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to Corporate Director Resources who will act in accordance with the organisation's policy statement and TMPs and (if a member) CIPFA's Standard Professional Practice on Treasury Management.

4. This organisation nominates Budget Review Group to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

**Summary of approach to Borrowing and Investments**

Full details of the Council's approach to Borrowing and Investment are contained within the main Treasury Management Strategy report. In summary, these are:

**Borrowing;** The Council will maintain a cautious approach to borrowing and adopt a pragmatic approach to changes in market circumstances, but ensuring cashflow requirements and capital financing needs are met. The Council will also aim to structure borrowing to ensure that the HRA has sufficient capital to meet asset management needs whilst minimising the cost of carrying excessive debt to the HRA. The Council will not borrow in advance purely to profit from the investment of the extra sums borrowed. Loan rescheduling opportunities shall be kept under review.

**Investments;** The Council's investment priorities will be **security, liquidity,** and **yield – strictly in that order.** Investment activity shall be conducted in accordance the adopted Annual Investment Strategy (AIS). The Council will manage investment balances with reference to core funds, cash flow requirements and the outlook for interest rates.

## APPENDIX M(ii) – MINIMUM REVENUE PROVISION (MRP) POLICY

The Council is required to pay off an element of the accumulated General Fund borrowing requirement used to 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).

CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Four primary options are set out to council's, however this does not preclude other options so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

**Capital Expenditure incurred before 1st April 2008 or future SCE**

From 2015/16, for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that this debt will be repaid within 50 years. Previously, the Council charged MRP in line with former DCLG Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (CFR) each year.

Any backlog overprovision of MRP resulting from this change of calculation basis may be adjustment by reducing future annual MRP charges (in part or in full) in a prudent manner, considering the wider impact upon the Council's financial position.

**Capital Expenditure incurred after 1st April 2008**

From 1 April 2008 for all unsupported borrowing except those separately listed in this Policy (including PFI and finance leases) the MRP policy will be either:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (known as Option 3);

- Depreciation method – MRP will follow standard depreciation accounting procedures (known as Option 4);

These options provide for a reduction in the borrowing need over the approximate asset's life.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

## APPENDIX M(ii) – MINIMUM REVENUE PROVISION (MRP) POLICY cont.

Also, whatever type of expenditure is involved, it 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.

**Housing Revenue Account (HRA)**

There is no requirement on the HRA to make a minimum revenue provision. However as a result of HRA reforms the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, transitional regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

Repayments included in annual PFI or finance leases are applied as MRP.

**Assets for Future Development**

For assets acquired for future development, where it is anticipated that the future sale proceeds of the asset will offset the cost, the repayment of the debt may be funded from future capital receipts arising as an alternative prudent provision (thus negating the requirement to provide for MRP). This approach will be reviewed on an annual basis, to ensure that anticipated capital receipts continue to offset the cost of the debt.

**Local Authority Mortgage Scheme (LAMS)**

For authorities who participate in the Local Authority Mortgage Scheme (LAMS) using a cash backed option, the mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party.

The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit would be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly.

As this constitutes a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

**Property Fund for Temporary Accommodation**

The Council has entered into an agreement to invest in the Real Lettings Property Fund managed by Resonance UK (a Social Investment Company) to provide up to 70 property units to address the urgent need for suitable temporary accommodation in Milton Keynes.

## APPENDIX M(ii) – MINIMUM REVENUE PROVISION (MRP) POLICY cont.

The Council expects its investment to be returned in full, and with surpluses accruing from capital growth so no Minimum Revenue Provision (MRP) will be made. The values of the fund and the underlying assets will be kept under review, which may lead to initiating an MRP charge in the future.

## APPENDIX M(iii) – ECONOMIC AND INTEREST RATE FORECAST 2018 – 2021

**Forecast assumptions:**

- The central case is for Bank Rate to remain at 0.50% over the medium term. The risks to the forecast are broadly balanced on both sides.
- Gilt yields are likely to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

| | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.21 |
| Arlingclose Central Case | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside 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 |
| | | | | | | | | | | | | | | |
| 3-month LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.10 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.23 |
| Arlingclose Central Case | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside risk | -0.10 | -0.15 | -0.15 | -0.15 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.22 |
| | | | | | | | | | | | | | | |
| 1-yr LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.15 | 0.20 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.28 |
| Arlingclose Central Case | 0.70 | 0.70 | 0.70 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.78 |
| Downside risk | -0.20 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.15 | -0.15 | -0.15 | -0.26 |
| | | | | | | | | | | | | | | |
| 5-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.33 |
| Arlingclose Central Case | 0.75 | 0.80 | 0.80 | 0.80 | 0.85 | 0.90 | 0.90 | 0.95 | 0.95 | 1.00 | 1.05 | 1.10 | 1.15 | 0.92 |
| Downside risk | -0.20 | -0.25 | -0.25 | -0.25 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.35 |
| | | | | | | | | | | | | | | |
| 10-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.33 |
| Arlingclose Central Case | 1.25 | 1.25 | 1.25 | 1.25 | 1.30 | 1.30 | 1.35 | 1.40 | 1.45 | 1.50 | 1.55 | 1.55 | 1.60 | 1.38 |
| Downside risk | -0.25 | -0.25 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.34 |
| | | | | | | | | | | | | | | |
| 20-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.33 |
| Arlingclose Central Case | 1.85 | 1.85 | 1.85 | 1.85 | 1.90 | 1.90 | 1.95 | 1.95 | 2.00 | 2.05 | 2.05 | 2.05 | 2.10 | 1.95 |
| Downside risk | -0.30 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.45 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.41 |
| | | | | | | | | | | | | | | |
| 50-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.33 |
| Arlingclose Central Case | 1.70 | 1.70 | 1.70 | 1.70 | 1.75 | 1.80 | 1.85 | 1.90 | 1.95 | 1.95 | 1.95 | 1.95 | 2.00 | 1.84 |
| Downside risk | -0.30 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.45 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.41 |

* PWLB Certainty rate is calculated by adding 0.80% to the gilt forecast rates.

## APPENDIX M(iii) – ECONOMIC AND INTEREST RATE FORECAST 2018 - 2021 Cont.

- The MPC increased Bank Rate in November 2017 to 0.5%.The rise was questionable based on the available economic data. Market rate expectations are broadly unchanged since the rise and policymakers continue to emphasise that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have revised lower the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2. Forecasts for future GDP growth have generally been revised downwards.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- More recent labour market data suggested that employment has plateaued, although house prices (outside London) appear to be relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by stronger global and Eurozone economic expansions.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

## APPENDIX M(iv) – SPECIFIED AND NON-SPECIFIED INVESTMENTS

**Specified Investments;** Sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes.

**Non-Specified Investments;** Any other type of investment which does not meet the criteria to be classified as specified.

The Council has accessed the classification of investment products as follow:

| **Specified Investments** ***(Maturities up to 1 year)*** | **Non Specified Investments** ***(Maturity in excess of 1 year)*** |
|---|---|
| Debt Management Agency Deposit Facility | Term deposits – local authorities & housing associations/registered social landlords |
| Call / Notice accounts - banks & building societies | Term deposits – banks and building societies |
| Term deposits* – local authorities & housing associations/registered social landlords | Certificates of deposits – banks & building societies |
| Term deposits* – banks & building societies | Fixed term deposits with variable rate and variable maturities:- Structured deposits |
| Certificates of deposits* – banks & building societies | UK Government Gilts |
| UK Government Gilts | Commercial Papers/Corporate Bonds |
| Reverse Repurchase Agreements* (REPOs) | Reverse Repurchase Agreements (REPOs) |
| Covered Bonds* | Covered Bonds |
| Asset Back Securities* | Asset Back Securities |
| **Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -** | |
| 1. Government Liquidity Funds | 1. Bond Funds / Gilt Funds |
| 2. Money Market Funds | 2. Property Funds |
| 3. Enhanced cash funds | |
| 4. Bond Funds / Gilt Funds | |
| - **Closed-End Investment Companies (CICs): -** | |
| | 1. Property Funds |
| **Local Authority Mortgage Guarantee Scheme;** under such scheme the Council would be required to place funds to underwrite risk of default for a period of years. If undertaken this would be classified as a service investment rather than a treasury management investment, and fall outside of the Specified/Non-specified categories. | |

*** -** If forward dealing, the forward period plus the deal period should not exceed one year in aggregate to classify as a specified investment. Any forward deposits in excess of one year in aggregate will classify as non-specified.

## APPENDIX M(v) – RESPONSIBILITIES FOR TREASURY MANAGEMENT

**(i) Council**

- approval of annual strategy;
- budget consideration and approval.

**(ii) Cabinet**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

**(iii) The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- reviewing the treasury management policy and procedures.
- 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;
- approving the selection of external service providers and agreeing terms of appointment.
- delegated authority for operational treasury management decisions as appropriate (as set out in this strategy).