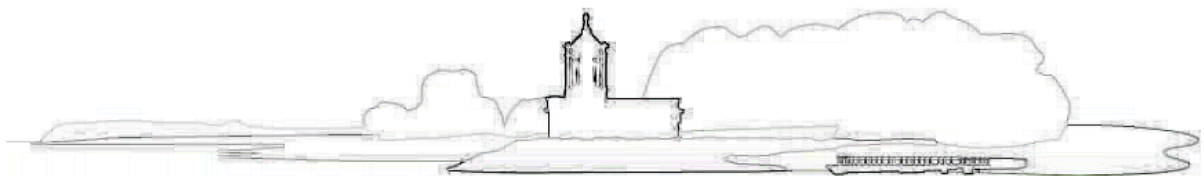




Rutland County Council

Treasury Management Strategy 2019 - 20



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1 INTRODUCTION

1.1 Background to Treasury Management

- 1.1.1 The Council is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed to meet day-to-day running costs and planned capital expenditure. Any surplus monies are invested in counterparties or instruments commensurate with the Council's 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 as set out in the Budget and Capital Investment Strategy (CIS). 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure and are separate from the day to day treasury management activities.
- 1.1.5 CIPFA defines treasury management as "...The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting Requirements

Treasury Management Reporting

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

1.2.2 **Prudential and treasury indicators and treasury strategy** (this report) - The first and most important report covers:

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

1.2.3 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision. In addition, this Council will receive an update on investment returns.

1.2.4 **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.

1.2.5 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Cabinet and reports are also made available to Scrutiny Panels.

Capital Investment Strategy

1.2.6 The Treasury Management Strategy should be read in conjunction with the Council's Capital Investment Strategy as the Council's debt and MRP policy are directly impacted by capital plans.

1.2.7 The overall aim of the Council, with respect to capital expenditure and investment, is to achieve council objectives and priorities whilst ensuring that capital plans are affordable, prudent and sustainable.

1.2.8 The CIS provides a framework that allows that objective to be achieved. It sets out:

- what is capital expenditure/investment and why we incur it (section 2);
- the Council's overall capital objectives, priorities and plans (section 3);
- how the Council's capital expenditure/investment will be funded/resourced (section 4);
- how the Council's capital expenditure/investment plans will be appraised (section 5) including the Council's commercial investment policy (Annexe B1);

- how capital plans will be approved (section 6), monitored and reported upon (Section 7); and
- the skills and knowledge required to deliver the capital plans (section 8).

1.3 **Treasury Management Strategy for 2019/20**

1.3.1 The strategy for 2019/20 covers two main areas.

Capital Issues

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

Treasury Management Issues

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

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

1.4 **Training**

1.4.1 The CIPFA Code requires the s151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training will be considered post 2019 Local Elections as part of members' induction.

1.4.2 The training needs of treasury management officers and members are periodically reviewed.

1.5 Treasury Management Consultants

- 1.5.1 The Council uses Link Asset Services Treasury Solutions as its external treasury management advisors.
- 1.5.2 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
- 1.5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

2.1 Capital Expenditure

- 2.1.1 The Council's capital expenditure plans as set out in the budget are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
- 2.1.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. As at 1 April 2019 the Council estimates that it will have capital projects approved of £28.737m. The details of this are shown in Budget Report (Report No: 4/2019).
- 2.1.3 The table overleaf shows the indicative spend profile of approved capital projects included in the 2019/20 Budget. Whilst the Council may have approved a project in 2019/20 spending may not occur until 2020/21. Members are asked to approve the capital expenditure forecasts:

Estimates of capital expenditure (Prudential Indicator (PI) 3) and Actual capital expenditure (PI4)

Estimated Capital Programme	Actuals	Projects	Projects	Projects	Projects
	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Total Projects	4,943	13,807	578	0	0
Total Commercial Activities/non-financial investments*	0	0	10,000	0	0
Total	4,943	13,807	10,578	0	0
Non ring fenced grants-unallocated	0	0	2,915	4,136	1,962
Total Budget 2019/20	4,943	13,807	13,493	4,136	1,962

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc

2.1.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. The table also shows the percentage of the borrowing need relating solely to commercial investments.

Estimated Capital Programme	Actuals 2017/18	Projects 2018/19	Projects 2019/20	Projects 2020/21	Projects 2021/22
	£000	£000	£000	£000	£000
Grant	3,558	9,520	3,163	2,938	1,962
Capital Receipts	143	1,488	0	0	0
RCCO	274	25	0	0	0
Oakham North	130	208	0	956	0
S106/CIL	256	279	130	242	0
Total Funding	4,361	11,520	3,293	4,136	1,962
Borrowing Need	582	2,287	10,200	0	0
Borrowing relating to Commercial Investments	0	0	10,000	0	0
Percentage of total net financing need %	0%	0%	98%	0%	0%

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

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

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

2.2.3 The Council is asked to approve the CFR projections below:

Estimates of CFR (PI5) and Actual CFR (PI6)

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Financing Requirement					
CFR – Services 1 Apr	22,755	21,858	21,244	33,067	32,098
Movement in Year	(897)	(614)	11,823	(969)	(969)
Total CFR	21,858	21,244	33,067	32,098	31,129
Movement in CFR represented by					
Net financing need for the year (above)	0	0	12,487	0	0
Less MRP/VRP and other financing movements	(897)	(614)	(664)	(969)	(969)
Movement in CFR	(897)	(614)	11,823	(969)	(969)

2.2.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1.3 and the details below demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Financing Requirement – Commercial Activity					
CFR – Services 1 Apr	0	0	0	10,000	9,800
Movement in Year	0	0	10,000	(200)	(200)
Total CFR	0	0	10,000	9,800	9,600
Movement in CFR represented by					
Net financing need for the year (above)	0	0	10,000	0	0
Less MRP/VRP and other financing movements	0	0	0	(200)	(200)
Movement in CFR	0	0	10,000	(200)	(200)

2.3 Core Funds and Expected Investment Balances

2.3.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from

new sources (asset sales etc). Detailed below are estimates of the year-end balances for each resource and anticipated cash flow balances.

Year End Resources	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund balances / reserves	26,529	24,895	20,891	20,201	20,066
Capital receipts	1,347	0	50	100	150
Provisions	518	518	518	518	518
Total core funds	28,394	25,413	21,459	20,819	20,734
Working capital*	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
New borrowing**	-	-	(5,000)	-	-
Expected investments	26,394	23,413	14,459	18,819	18,734

*Working capital balances shown are estimated year-end; these may be higher mid-year

**Prudential borrowing in line with CIS.

3 BORROWING

3.1 Borrowing objectives

3.1.1 Councils borrow to fund capital expenditure or refinance/reschedule existing borrowing e.g. replace one loan with one at a lower rate. There are 7 types of borrowing that may be considered under this strategy.

- Borrowing to fund a scheme that will reduce the Council's ongoing revenue costs in future years or avoid increased costs in future years.
- Borrowing to fund the purchase of essential vehicles, plant and equipment in order to maintain Council functions.
- Borrowing in advance of anticipated receipts to enable the Council to invest in capital expenditure before it has the income to fund the investment.
- Borrowing to enable the Council to fund a larger capital programme than it is able to do using Government grant and self-financed borrowing.
- Borrowing to fund an overspend on a large-scale capital scheme that would otherwise have to be funded from a revenue contribution to capital outlay with major impact on the Council's revenue budget.
- Borrowing to fund a capital development which the Council believes is so essential to the transformation of Rutland, and able, within the context of setting a robust budget and medium term financial strategy, to allocate to the development a specific, ongoing, relatively secure source of funding that can clearly be seen to be able to cover the cost of debt financing for the project over its expected life.

- Borrowing to reschedule existing borrowing i.e. replace existing loans with others.
- 3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options. The Council's objectives are to:
- avoid external borrowing as far as possible (i.e. use other sources of funding first where possible) unless that borrowing yields income or deliver savings beyond the cost of borrowing;
 - repay borrowing early if this is financially prudent and viable;
 - reduce its borrowing charge if this represents value for money;
 - ensure any new borrowing is affordable; and
 - work within prudential indicator limits.

3.2 **Current borrowing portfolio**

- 3.2.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). PWLB is managed as part of the UK Debt Management Office, which is a HM Treasury Executive Agency. The remainder is a £630k Local Enterprise Partnership interest free loan which matures in 2023 and an interest free Salix loan of £420k repayable in 2022. Included within the £21.386m is £8.232m of debt that was inherited from Leicestershire in the Local Government Re-organisation in 1997.
- 3.2.2 The last time the Council actually borrowed from the PWLB was in 2008 to contribute towards funding the Oakham bypass, the value of this loan was £4m.
- 3.2.3 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being re-paid on the maturity date.
- 3.2.4 The external debt projections are shown Overleaf. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

ACTUAL EXTERNAL DEBT (PI9) AND GROSS DEBT AND THE CFR (PI10)

Year End Resources	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
External Debt					
Debt - 1 April	22,436	22,394	21,310	27,226	27,142
Expected Change in Debt	(42)	(84)	4,916	(84)	(84)
Actual Gross Debt 31 March	22,394	22,310	27,226	27,142	27,058
Capital Financing Requirement	21,859	21,244	33,067	32,098	31,128
Under / (Over) Borrowing*	(577)	(1,066)	5,841	4,956	4,070

*Over Borrowing Position explained in Treasury Management Strategy 2017/18 (41/2017)

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

External Debt for commercial activities / non-financial investments	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Actual debt at 31 March £000	0	0	5,000	5,000	5,000
Percentage of total external debt %	0	0	18	18	18

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

3.2.7 The s151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this budget report.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **Operational boundary for external debt (PI6)** - This is the limit beyond which external debt is not normally expected to exceed. It is not an absolute limit, it can be temporarily breached. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resource.

Operational boundary	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt	23,000	23,000	23,000	23,000
Commercial activities/non-financial investments	5,000	5,000	5,000	5,000
Total	28,000	28,000	28,000	28,000

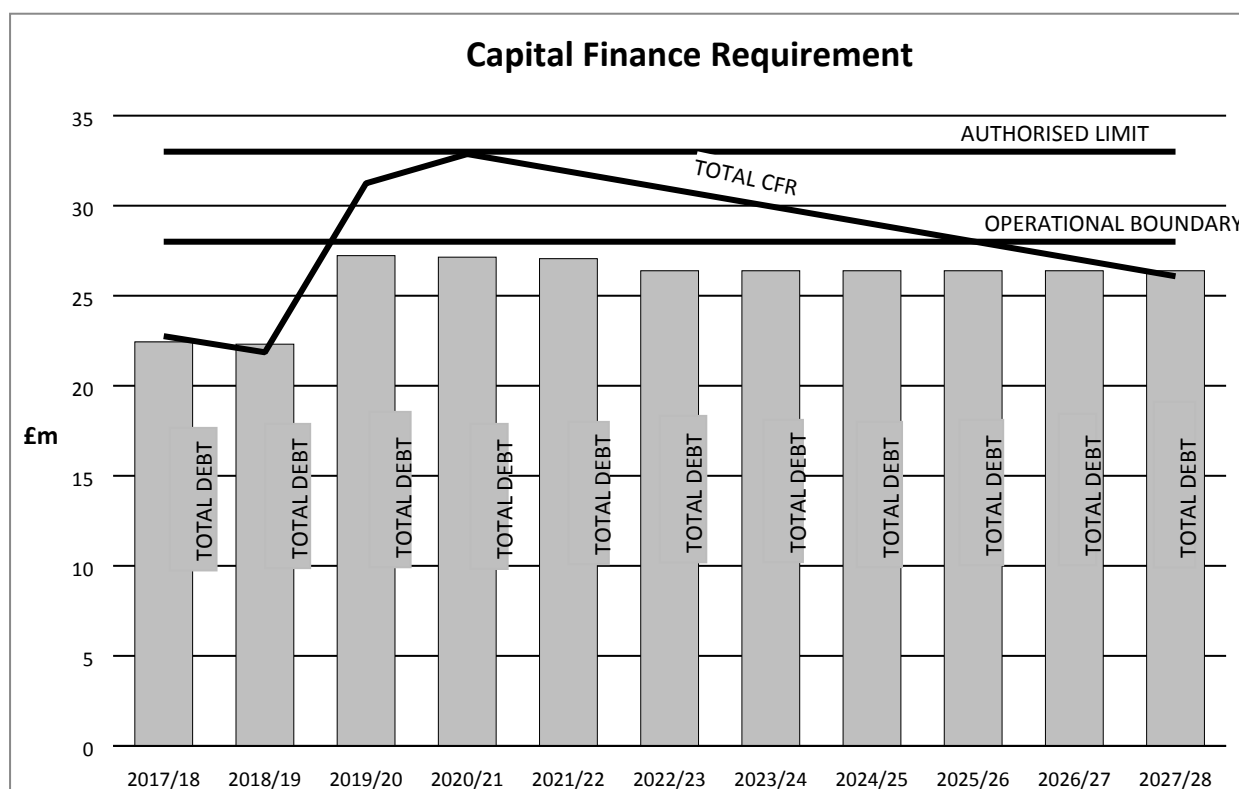
3.3.2 **Authorised limit for external debt (PI7)** - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

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

3.3.4 The Council is asked to approve the following authorised limit:

Authorised limit	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt	28,000	28,000	28,000	28,000
Commercial activities/non-financial investments	5,000	5,000	5,000	5,000
Total	33,000	33,000	33,000	33,000

3.3.5 The graph below shows where we currently are against all of the borrowing prudential indicators.



3.4 Prospects for Interest Rates

3.4.1 Link Asset Services have provided a view on interest rates as per the table below.

	Dec 2018 %	Mar 2019 %	Jun 2019 %	Sep 2019 %	Dec 2019 %	Mar 2020 %	Jun 2020 %	Sep 2020 %	Dec 2020 %	Mar 2021 %
Bank Rate	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.50	1.50
3 Month LIBID	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.60
6 Month LIBID	0.90	1.00	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.80
12 Month LIBID	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.90	2.00
5 Yr PWLB	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10 Yr PWLB	2.50	2.50	2.60	2.60	2.70	2.80	2.90	2.90	3.00	3.00
25 Yr PWLB	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.40
50 Yr PWLB	2.70	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.20

Interest rate forecast provided by Link Asset Services on 27 November 2018

3.4.2 Investment and borrowing rates

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

- Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 Borrowing Strategy

- 3.5.1 From 2019/20 the Council is maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 3.5.3 If the Council were to borrow then the Director of Resources would monitor the market to ensure that the borrowing was undertaken at the optimum time for the Council. If the Director of Resources thought rates would fall then they may choose to hold off long term borrowing. If they thought rates would rise then they may choose to borrow in advance of need (see section 3.6) to ensure borrowing is secured at a lower rate.
- 3.5.4 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 Policy on Borrowing in Advance of Need

- 3.6.1 The Council must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. The Council has some flexibility to borrow funds in advance of need for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
- 3.6.2 If the Council does borrow in advance of need it will only be to fund statutory

services rather than to solely invest in a yield bearing opportunity in non-financial investments.

3.6.3 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 18 months in advance of need.

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

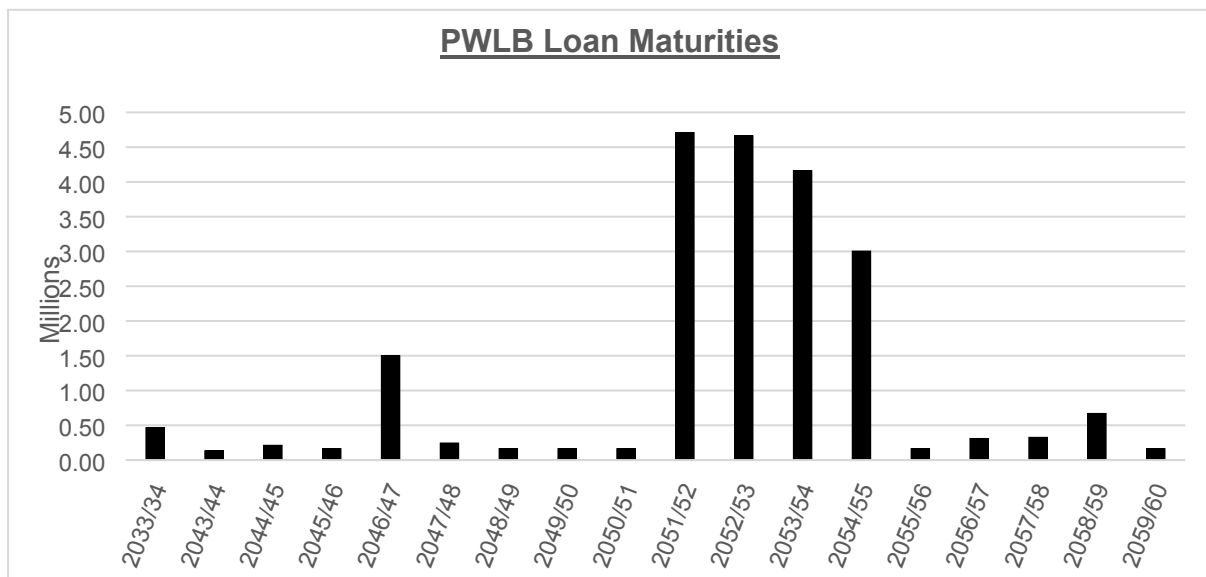
3.7 **Proportionality**

3.7.1 The Council will consider the concept of proportionality, alongside that of affordability needs when analysing funding projects through borrowing. The costs and risks associated with that borrowing will be examined as part of the whole financial position of the council, so that the Council does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources. The Council needs to be aware of the scale and relationship with the asset base and revenue delivery to inform decision making.

3.7.2 To demonstrate the proportionality between the treasury operations and the non-treasury operation, key indicators are shown for the Council as a whole as well as for non-treasury investments throughout this report e.g. the operational boundary is split to show commercial investments separately.

3.8 **Debt Repayment and rescheduling**

3.8.1 The table below demonstrates when PWLB debt is due to be repaid.



- 3.8.2 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 3.8.3 The 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;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 3.8.4 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 3.8.5 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment overview

- 4.1.1 The Council receives substantial income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

At any point of time in the year, the Council can have between £26m - £36m available to invest. The estimated level of investments at year end based on the current cash flow calculations and for the next few years is shown Overleaf. The total investments at Quarter 2 show the estimated level of investment at the mid-point during the financial year.

	2018/19 Actual £000	2018/19 Forecast £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Total Investments at Quarter 2	34,603		26,000	19,000	15,000
Total Investments at 31 March		27,000	24,000	16,000	13,000

- 4.1.2 The Council will invest surplus money in various ways to get a return on balances thus generating extra income.

4.2 Investment policy objectives

4.2.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

4.2.2 The Council’s investment policy has regard to the MHCLG’s Guidance on Local Government Investments (“the Guidance”); CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”) and CIPFA Treasury Management Guidance Notes 2018.

4.2.3 This policy only covers treasury investments. The objectives of non-treasury investments are covered in the CIS.

4.2.4 The Council’s investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

4.2.5 These objectives filter through this strategy.

4.3 Investment rules

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

4.3.2 The Council engages with its advisors to monitor markets to support the ratings systems which ensures the Council is aware of the standing of the bank / building society.

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

4.4 **Creditworthiness policy**

- 4.4.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
 - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 4.4.2 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.
- 4.4.3 The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009.
- 4.4.4 Credit rating information is supplied by our treasury consultants daily on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to counterparty will be suspended from use, with all others being reviewed in light of market.
- 4.4.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is shown in the table overleaf

	Money Limit	Time Limit
Banks & Rated Building Societies (Upper Limit)	£5m	3 yrs
Banks & Rated Building Societies (Middle)	£5m	364 Days
Banks (Council Banker)	£5m*	3 yrs*
Debt Management Account Deposit Facility managed by the DMO (Debt Management Office)	£5m	364 Days
Local authorities	£5m	364 Days
Central Government Issued Gilts & Bonds	£5m	3 years
Building Societies (not on rating list)	£1m	6 months
Money Market Funds Constant Net Asset Value (CNAV)	£5m	364 Days
Money Market Funds Low Volatility Net Asset Value (LVNAV)	£5m	364 Days
Property Funds	£2m	**

*Limits will align to those of the banks

** No time limit as investment would need to be left to mature to ensure no loss on investments.

4.4.6 **Country and Sector Considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in the table above. In addition to this:

- no more than 10% (of the total investment portfolio) will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Link Asset Services limits will be monitored regularly for appropriateness.

4.4.7 **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.75% Bank Rate remaining for the near future. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

4.4.8 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members

are asked to approve this base criteria above, under the exceptional current market conditions the Section 151 Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

4.5 Investment approach

4.5.1 As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

4.5.2 The Council’s approach is influenced by numerous issues:

- Cash flow – when will the Council need the funds to pay general running costs of the Council or fund capital investment activity
- The vehicles allowed for investment as outlined in this strategy as referenced on 4.4.5
- The rate of return on offer - Bank Rate is forecast to stay at 0.75% until quarter 2 2019 and not to rise above 1.25% until Quarter 2 2020.

4.5.3 Our focus is on traditional investments e.g. deposits for up to 12 month period – this is in line with the advice from our consultants (Link Asset Services). We will also consider longer term options (Government bonds, Property Funds etc) once the position on Commercial Investments is clear. For example, placing funds in long term investments may not be an option depending on capital expenditure and investment plans.

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

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

Upper limit on total principal sums invested for periods of longer than a year (PI12)

£000	2019/20	2020/21	2021/22
Principal sums invested for longer than 365 days	0	0	0

4.6 Investment returns expectations and benchmarking

4.6.1 Over the medium term, the Council expects to make returns as shown in the table overleaf. The investment interest income forecast is:

2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
250	240	180	180	180

4.6.2 This income forecast is based on treasury investments and does not include interest generated from commercial investments.

4.6.3 Security – Each counterparty the Council invests in has a risk of default (a calculated percentage to demonstrate the potential loss on the investment). The Council’s maximum security risk benchmark for the current portfolio, is:

- 0.10% historic risk of default when compared to the whole portfolio. The table below demonstrates a financial representation of how much the Council would stand to lose at 0.10%.

	2018/19 Forecast £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Total Investments at 31 March	27,000	24,000	16,000	13,000
Revenue impact of risk of default at 0.10%	27	24	16	13

4.6.4 Risks arising from commercial investments will be assessed during the evaluation process as detailed in the CIS.

4.6.5 Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £1m available with a week’s notice.

4.6.6 Yield - local measures of yield benchmarks

- Investments – internal returns above the 6 month LIBOR rate

4.7 End of Year Investment Report

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

5 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22 AND MRP STATEMENT

5.1 Capital Expenditure

5.1.1 The Council’s capital expenditure plans (see 2.1.3) are the key driver of

treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.2 **Minimum Revenue Provision Policy**

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

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

- For capital expenditure incurred before 1 April 2008 The Council will reduce on a straight line basis over 50 years.
- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be (either / and):
 - a) Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
 - b) Depreciation method – MRP will follow standard depreciation accounting procedures. These options provide for a reduction in the borrowing need over approximately the asset's life.

5.2.3 **MRP Overpayments-** A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £1.41m in 2013/14 and £0.597m in 2015/16 giving a total MRP overpayment of £2.01m.

5.3 **Affordability Prudential Indicators**

5.3.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

- 5.3.2 **Estimates of Financing Costs to Net Revenue Stream (PI1) and Actual financing costs to net revenue stream (PI2)** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate
Services	4.92	4.07	4.09	4.40	4.16

The estimates of financing costs include current commitments and the proposals in the budget report. This indicator has not been split between services and commercial activities because the MRP charge for the borrowing to fund Investment Properties will not commence until 2020/21.

- 5.3.3 **Incremental Impact of Capital Investment Decisions on Band D Council Tax (PI13)**. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2017/18 Actual £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Council Tax - Band D	0.28%	0.16%	0.59%	2.48%	0%

- 5.3.4 **Upper and lower of maturity structure of borrowing (fixed & variable) (P11)**

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.

The Council is asked to approve the following treasury indicators and limits:

	2019/20	2020/21	2021/22
Maturity structure of fixed interest rate borrowing 2019/20			
	Upper		Lower
Under 12 months	25%		0%
12 months to 2 years	25%		0%
2 years to 5 years	20%		0%
5 years to 10 years	20%		0%
10 years and above	100%		0%
Maximum principal sums invested > 364 days	25%		

5.3.5 **Debt to net service expenditure (PI14)** - This indicator shows gross debt as a percentage of net service expenditure. Net service expenditure is considered to be a proxy for the size and financial strength of a local authority.

	Services	Commercial Activities
Gross Debt	22,226	5,000
Net Service Expenditure	36,809	36,809
Debt to net service expenditure %	60%	14%

ANNEXE A1 - PUBLIC WORKS LOAN BOARD (PWLB) DEBT ANALYSIS

The table below shows the number of outstanding loans with the PWLB, the maturity date, Principal outstanding, interest rate and the premium payable if the council was to settle the outstanding loan.

PWLB 2018-19 Loan Repayment Premiums as at 5-Dec-2018					
Loan Reference	Start Date	Maturity Date	Principal Balance	Interest Rate %	Premium
461697	27-Mar-1987	31-Dec-2043	132,529.13	9.000	188,859
461698	27-Mar-1987	31-Dec-2044	212,550.13	9.000	311,488
461699	27-Mar-1987	31-Dec-2045	163,500.10	9.000	246,684
461700	27-Mar-1987	31-Dec-2046	196,200.12	9.000	305,178
476645	30-Nov-1995	28-Jul-2053	163,500.10	8.000	260,424
476646	30-Nov-1995	28-Jul-2054	163,500.10	8.000	266,657
476647	30-Nov-1995	28-Jul-2055	163,500.10	8.000	272,853
476842	21-Dec-1995	13-Dec-2052	163,500.10	7.875	251,043
476843	21-Dec-1995	13-Dec-2051	163,500.10	7.875	244,874
476844	21-Dec-1995	13-Dec-2050	163,500.10	7.875	238,662
477672	05-Aug-1996	08-May-2048	163,500.10	8.375	240,517
477673	05-Aug-1996	08-May-2049	163,500.10	8.375	247,332
478210	26-Sep-1996	25-Sep-2047	217,138.76	8.125	302,261
478211	26-Sep-1996	25-Sep-2056	163,500.10	8.125	285,470
478214	26-Sep-1996	25-Sep-2047	28,111.39	8.125	39,132
479404	21-May-1997	08-May-2057	327,000.20	7.125	486,629
479405	21-May-1997	08-May-2056	147,150.09	7.125	214,200
481709	13-Oct-1998	25-Sep-2058	163,500.10	4.625	134,346
482002	14-Jan-1999	25-Sep-2058	320,460.20	4.375	240,421
482386	30-Mar-1999	25-Mar-2059	23,271.98	4.625	19,288
482875	08-Nov-1999	25-Mar-2059	163,500.10	4.500	129,619
483562	18-Nov-1999	25-Sep-2059	163,500.10	4.250	118,839
491043	19-Jan-2006	19-Jan-2034	465,521.00	4.000	152,406
491501	05-Mar-2006	03-Nov-2051	2,689,694.00	4.400	1,712,331
491580	19-May-2006	19-Nov-2046	1,303,000.00	4.250	676,373
492151	20-Sep-2006	20-Mar-2052	1,856,434.00	4.200	1,099,397
492927	19-Feb-2007	19-Aug-2052	2,000,000.00	4.400	1,302,502
492928	19-Feb-2007	19-Aug-2053	2,000,000.00	4.400	1,337,578
492929	19-Feb-2007	19-Aug-2054	1,427,410.00	4.400	979,620
493087	03-Aug-2007	19-Aug-2052	2,500,000.00	4.250	1,533,834
493088	03-Aug-2007	19-Aug-2053	2,000,000.00	4.250	1,260,410
493089	03-Aug-2007	19-Aug-2054	1,414,351.00	4.250	914,873
			21,386,323.30		16,014,099

ANNEXE A2 TREASURY MANAGEMENT GLOSSARY OF TERMS

<p>Authorised Limit (Also known as the Affordable Limit):</p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves:</p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bank Rate:</p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p>Basis Point:</p> <p>A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.</p>
<p>Bond:</p> <p>A certificate of debt issued by a company, government or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.</p>
<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>
<p>Credit Rating:</p> <p>Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.</p>
<p>Counterparty List:</p> <p>List of approved financial institutions with which the Council can place investments with.</p>
<p>Debt Management Office (DMO):</p>

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

Maturity:

The date when an investment or borrowing is repaid.

Money Market Funds (MMF):

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Non Specified Investment:

Investments which fall outside the CLG Guidance for Specified investments (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Prudential Code:

Developed by CIPFA and introduced on 1/4/2004 as a professional code of practice to support local authority capital investment planning within a clear,

affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable, prudent and sustainable.

They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A council may also choose to use additional voluntary indicators.

Public Works Loans Board (PWLB):

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments:

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing:

Borrowing for which the costs are supported by the government or third party.

Temporary Borrowing:

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Unsupported Borrowing:

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Yield:

The measure of the return on an investment.

**A large print version of this document is
available on request**



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