APPENDIX A

TREASURY MANAGEMENT STRATEGY REPORT 2019/20 to 2021/22

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1. Area Affected

1.1 County Borough wide.

2. Purpose of Report

2.1 To consider the Council's Treasury Management Strategy for 2019/20 and Prudential Indicators for 2019/20 to 2021/22.

2.2 The report fulfils the following key requirements:
- (i) The reporting of the Authority's Treasury Management Strategy (Annex B).
- (ii) The reporting of the Authority's Investment Strategy (Annex B).
- (iii) The reporting of the Authority's Minimum Revenue Provision (MRP) Policy (Annex A).

3. Background

3.1 The Council is required to operate a balanced budget, which means that cash raised during the year will meet cash spent. Part of the treasury management operation is to ensure that cash flow is effectively monitored and cash is available when it is needed. Investments are deposited with low risk counterparties and in financial products consistent with the Council's low risk appetite, prioritising the key characteristics of security, liquidity and yield.

3.2 The Local Government Act 2003 and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators. CIFPA consulted on changes to these Codes in 2017 and have produced revised documents.

3.3 The Prudential Guideline for capital control is a system of self-regulation, whereby Local Authorities are allowed to determine appropriate level of expenditure on capital projects (and as a consequence the level of credit that can be raised in a financial year) providing that the revenue consequences of the decisions are prudent, affordable and sustainable. In order to demonstrate this, the Authority must set various indicators that review the current year and estimate the next three financial years. For the financial year 2019/20 these Capital Prudential indicators and the capital plans have been moved to the Capital Strategy, a new report, which will be taken to full Council independently.

3.4 This report takes into account known / planned prudential borrowing as at the 31 January 2019.

4. Reporting Requirements

4.1 The Council is required to receive and approve, as a minimum, three treasury management reports each year, along with a new capital report. These reports are as follows:-

- i) This report – Treasury Strategy Report including Treasury Indicators.
- ii) A Capital Strategy Report - a new report introduced by the 2017 edition of the Prudential Code. Intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services and the associated risk and financial sustainability.
- iii) A Mid-Year Treasury Management Report – a progress report comparing forecasts to estimates and proposing revisions to the strategy if appropriate.
- iv) An Annual Treasury Report – compares year end actuals to estimates.

4.2 Prior to 4.1 i) being considered by Council as part of the budget setting process Audit Committee scrutinises and comments upon the report.

5. Key Messages

5.1 The key details from this report are presented below.

5.2 MRP Statement

Minimum Revenue Provision (MRP) is a charge to the Council's revenue account to make provision for the payment of external debt and internal borrowing.

5.3 Borrowing Strategy

The Council's borrowing strategy is to maintain maximum control over its borrowing activities as well as allowing flexibility on its loan portfolio. The borrowing strategy provides affordability without compromising the longer-term stability of its debt portfolio. As part of this borrowing strategy, the 'Under 12 months' upper limit on borrowing has been increased from 30% to 50% of the total debt value, to allow the Council to continue to take advantage of temporary borrowing and the low interest rates they offer rather than more expensive, longer term loans.

5.4 Investment Strategy

The Council continues to follow a risk averse investment strategy with investments to be placed for a maximum 3 month period (6 months with Chief Officer approval). Investment counterparties are selected based on specified criteria.

6. Recommendations

6.1 It is recommended that Council approves:.

- (i) An annual Minimum Revenue Provision (MRP) Policy Statement - Annex A.
- (ii) The Treasury Management Strategy 2019/20 (including the Treasury Management Strategy and Prudential Indicators and Limits) in Annex B.
- (iii) Treasury Management Practice (TMP) 5 in Annex C. TMP 5 relates to dealing arrangements and is at Annex A for information. Annual review of this TMP is required internally to support the administration of the leasing process.

- (iv) Treasury Management Practice (TMP) 4 in Annex D. TMP 4 lists the approved instruments for investment purposes with methods and techniques and is at Annex B. This should also be reviewed annually.

Annex	A B C D	Annual MRP Statement Treasury Management Strategy 2019/20-2021/22 Treasury Management Practice (TMP) 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements TMP 4 - Approved Instruments, Methods and Techniques

Background Papers	The Local Government Act 2003; CIPFA Prudential Code; CIPFA's - Treasury Management Guidance Notes; CIPFA's - Treasury Management in the Public Sector, Guidance Notes for Local Authorities. Welsh Guidance on Local Government Investments Treasury Management Practices (TMPs) including the Treasury Management Policy Statement

For a copy of the background papers or for further information about this report please telephone: *Sharon Dixon, Lead Finance Officer – Treasury Management and Control Accounting (01495) 766115*

ANNUAL MRP STATEMENT

1. Minimum Revenue Provision (MRP) is a charge to the Council's revenue account to make provision for the payment of external debt and internal borrowing. The authority has a statutory obligation to charge to the revenue account an annual amount of MRP.

2. The Council must approve an MRP Policy Statement in advance of each year, and must approve any variations to this original Statement if any are proposed during the year.

3. Below is the proposed MRP Policy Statement for 2019/20:

   a) For all capital expenditure incurred prior to 1 April 2008 or for capital expenditure post 1 April 2008 which will be financed by Supported Borrowing the MRP charge will equal 3% of the opening capital financing requirement (CFR) as adjusted by the 2003 regulations.

   b) From 1 April 2008 for new borrowing under the Prudential system, for which no Government support is given, and is therefore self-financed (i.e. unsupported/prudential borrowing) the MRP policy will be:

      - Asset Life Method – MRP will be based on the estimated life of the assets. This means MRP will be based on the capital expenditure divided by a determined asset life to give equal annual instalments.
      - This option must also be applied to any expenditure capitalised under a Capitalisation Directive, unless otherwise dictated by the Capitalisation Directive.
      - In the case of leases the MRP requirement will be a charge equal to the principal element of the lease payment.

4. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised Statement would be considered by full Council.

Treasury Management Strategy 2019/20 – 2021/22

1. The treasury management service is an integral part of the overall financial management of the Council's affairs. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important elements of any treasury management activity.

   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 Council expenditure and maintain a balanced budget. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities.

   The key objective of the Council's treasury management strategy is the security of the principal sum it invests.

2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). Annex A - TMP5 of the Council's Treasury Management Practice outlines the organisation of the treasury management responsibilities.

3. The Council has adopted the Code of Practice on Treasury Management and in doing so also adopted a Treasury Management Policy Statement. This adoption meets the requirements of the first of the treasury prudential indicators. The adoption is reaffirmed annually and the subsequent report to Council will recommend this year's adoption.

4. The Treasury Management Strategy covers:

   - The Council's authorised limit and operational boundary on future external debt levels;
   - The Council's treasury management indicators
   - The expected interest rates;
   - The Council's borrowing strategy;
   - The Council's investment strategy;
   - Investment counterparty selection criteria;
   - Time and monetary limits on investments;
   - Treasury management advisor;
   - Leasing advisor;
   - Investment training;
   - The Council's bank.

Limits on Borrowing Activity

5. The Council sets a limit for its external debt, this represents a limit beyond which external debt is prohibited unless revised by full Council. It also set an operational boundary for external debt which is based on the expected maximum debt during the year.

Authorised and Operational Limit

Authorised Limit	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	149.48	155.04	**155.14**	153.49
Other long term liabilities	0.95	1.15	1.12	1.09
Total	150.43	156.19	156.26	154.58

Operational Limit	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	134.48	140.04	140.14	138.49
Other long term liabilities	0.95	1.15	1.12	1.09
Total	135.43	141.19	141.26	139.58

Treasury Management Indicators

6. The Authority measures and manages its exposure to treasury management risks using the following indicators.

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. It is monitored on a daily basis as part of the Treasury Management lending list preparation. The Authority must also maintain a £10m investment balance to retain professional investment status as part of MIFID II.

Table 1 – Liquidity risk indicator

	Target
Total cash available within 3 months	£10m

Table 2 – Maturity Structure of Borrowing

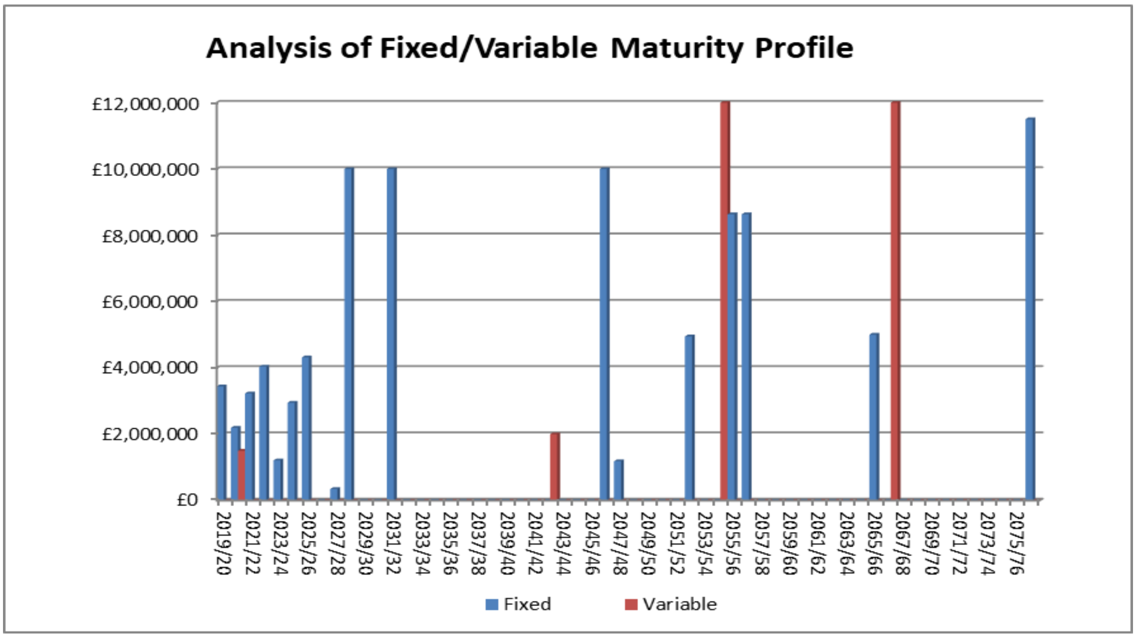
Refinancing rate risk indicator	**Lower**	**Upper**
Under 12 months	0	50%
12 months to 2 years	0	30%
2 years to 5 years	0	50%
5 years to 10 years	0	75%
10 years and above	25%	100%

At certain times, borrowing is needed for a very short period of time. This can be taken at favourable rates and avoids the cost of carry associated with borrowing on a more long term basis especially when funds are expected to be received in the near future. The 'Under 12 months' Upper limit has been increased from 30% to 50% to allow the Council to continue to take advantage of temporary borrowing and the low interest rates they offer rather than more expensive, longer term loans. Table 7 below lists current interest rates.

6.1 The Council's anticipated loan balances as at 31 March 2019 for each of the specified time bands are outlined below. The following table and graph illustrate the loan maturity profile using the loan's actual maturity dates.

Table 3 - Estimated Maturity Structure Council's borrowing 2018/19

Using Loan Maturity Dates	**£m**	**% of portfolio**
Under 12 months	3.57	2.89%
12months to 2 years	3.82	3.09%
2 years to 5 years	8.82	7.14%
5 years to 10 years	17.90	14.50%
Over 10 years	89.40	72.38%
	123.51	**100.00%**

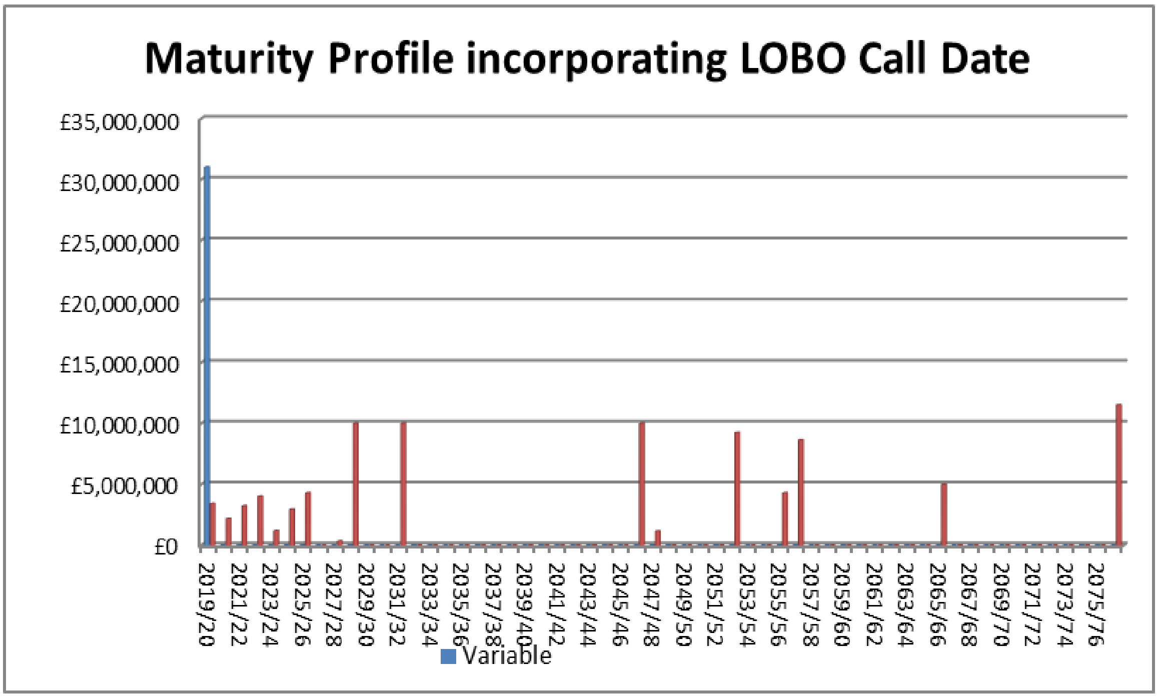


6.2 The Council has 9 lender's option/borrower's option loans (LOBOs) with banks. Under the terms of LOBO loans, after the initial fixed period, the lender, at fixed intervals, has the option to increase the rate on the loan, which gives the borrower, (the Council), the option to repay the loan. All 9 of these LOBO loans are in the variable state. It is very unlikely that LOBO loans will be called at the present time due to low interest rates – this may change in the future if rates rise. LOBO loans currently represent £31.0 million of the Council's debt portfolio. It is our intention to repay any LOBO loan called at its original value.

6.3 The following table and graph illustrate the loan maturity profile using the total loans using the next call date for any LOBO market loans:

Table 4 - Estimated Maturity Structure Council's borrowing 2018/19

Using Next LOBO Call Dates	**£m**	**% of portfolio**
Under 12 months	34.57	27.99%
12months to 2 years	2.32	1.88%
2 years to 5 years	8.82	7.14%
5 years to 10 years	17.90	14.50%
Over 10 years	59.90	48.49%
	123.51	**100.00%**



7. Sensitivity to interest rate exposure

Table 5 below highlights the estimated impact of a 1% increase/decrease in all interest rates on treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table 5 – Sensitivity of 1% interest rate change on revenue budget

	2019/20 Estimated + 1%	**2019/20 Estimated - 1%**
Interest on Borrowing	nil	nil
Investment income	100,000	(100,000)
Total Interest Variation	100,000	(100,000)

This table illustrates that the Council's investment income is exposed to changes in variable rate interest rates; it is sensitive to changes in the bank base rate and the potential effect on the achievement of the budget in 2018/19 is therefore clear. The figures in the table are based on an investment balance of £10 million – the figures will change if the investment balance changes. However, the Council is not exposed to interest rate risk on its costs of borrowing, because the Councils' loans are fixed rate in nature to ensure budget certainty.

Total principal funds invested for greater than 365 days – this indicator limits the risk of losses from forced early sale of investments. This Council does not invest any principal sums for greater than 365 days to increase the security of funds.

Table 6 - Maximum principal sums invested greater than 365 days

	2018/19 £m	**2019/20 £m**	**20120/21 £m**
Principal sum limits	nil	nil	nil

8. Borrowing in advance of need

   The Council may borrow in advance of need under delegated power and within the limits outlined earlier. Whilst the Statutory Finance 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. The speculative procedure of borrowing purely to invest is, however, unlawful.

Expected Interest Rates

9. The following table shows a forecast for future anticipated interest rates.

Table 7 – Anticipated Interest Rates

Annual Average %	**Bank Rate**	**Investment Rates**		**PWLB Borrowing Rates**		
		3 month	**6 months**	**5 year**	**20 year**	**50 year**
2018/19	1.00	1.00	1.25	1.20	1.90	1.85
2019/20	1.25	1.30	1.40	1.40	2.00	1.90
2020/21	1.25	1.30	1.40	1.30	2.00	1.90
2021/22	1.50	1.50	1.70	1.50	2.50	2.20

Borrowing Strategy 2019/20 – 2021/22

10. The Council's borrowing strategy is to maintain maximum control over its borrowing activities. All borrowing will be sustainable and affordable and at the most favourable rates available at the time the borrowing is required. Debt repayment or rescheduling will be considered where opportunities arise.

11. This borrowing strategy provides affordability without compromising the longer-term stability of its debt portfolio. With short-term interest rates currently lower than long-term rates, it is more cost effective in the short-term to either use internal resource, or to borrow short-term loans.

12. New long-term borrowing will continue to be considered as required. The Council has capital spend committed to Band A of the 21st Century Schools programme and may need to further borrow going forward.

13. The Council's long term and temporary (short-term) borrowing strategy will give consideration to new borrowing in the following order of priority: -

a) The cheapest form of borrowing will be internal borrowing by running down cash balances and foregoing interest earned on investments.

b) Temporary borrowing and the use of bank overdrafts to cover cash flow shortfalls as and when required.

c) Consideration will be given to all UK public sector body loan types to secure the lowest revenue cost for the Council. The different types of loan are described below:

- Maturity – half-yearly payments of interest only with a single repayment of principal at the end of the term.
- EIP (equal instalments of principal) – equal half-yearly instalments of principal together with interest on the balance outstanding at the time.
- Annuity or equal repayments (ER) – fixed half-yearly payments to include principal and interest.

d) Any institution approved for investments

e) Any other bank or building society authorised to operate in the UK. This may include borrowing options such as money market borrowing, stock issues, Certificates of Deposits of Treasury Bills.

f) UK public and private sector pension funds (except Greater Gwent (Torfaen) Pension Fund).

g) Capital market bond investors.

h) Special purpose companies created to enable local authority bond issues.

Funds may be borrowed in sterling from any credit institution.

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

- Leases
- Hire purchase
- Sale and leaseback

The Statutory Finance Officer, under delegated powers, will take the most appropriate form of borrowing, depending on the prevailing interest rates at the time.

Treasury Management Practices (TMP4) - Approved Instruments, Methods and Techniques specifies the borrowing instruments which can be adopted, is outlined at Annex D.

Investment Strategy 2019/20 – 2021/22

Investment Strategy

14. The Council will continue to have regard to the Welsh Government Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

    The primary objectives of the Council's investment strategy are:-

    - Safeguarding the repayment of principal and interest of its investments on time - security
    - Ensuring adequate liquidity of investments
    - Consideration of the interest rate earned or yield on investment

    These key priorities are considered strictly in the above order of Security, Liquidity and Yield.

15. The Council's forecasted year end investment position is summarised below:-

    Table 8 – Anticipated Investment Position as at 31 March

	2018/19 Revised £m	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Investments	10	10	10	10

Investment Counterparty Selection Criteria

16. **Treasury Management Policy (TMP) 1(5) – Risk management (Credit and Counterparty Risk)**

    In accordance with TMP1(5) the Statutory Finance Officer must maintain a counterparty list and must review the criteria and submit any changes (to the criteria) to Council for approval as necessary.

    The Council uses the services of Treasury Management Consultants who assist the Council with appropriate counterparty selection. Daily notifications of counterparty rating changes are sent electronically and actioned immediately as appropriate. On occasion a counterparty may be downgraded after an investment has been made. The action taken in response to this will depend on the extent of the downgrade; a minor downgrade will not be expected to affect the return of both principal and interest. In cases of more severe downgrades, the Council will continue to approach the counterparty with a view to early termination of an outstanding deposit if the risk to return of principal is assessed as being excessive. The following paragraphs replay TMP1(5) - Risk management (Credit and Counterparty Risk), it is recommended that this TMP is re-approved.

17. **Counterparties for investment purposes are selected using specific investment criteria**

    Under Welsh Government Guidance local authorities can undertake investments in two categories of investments - specified and non-specified investments. Specified investments are short term investments, which are:-

    - denominated in pounds sterling

- investments of not more than one-year maturity
- placed with a 'high credit quality' body or investment scheme i.e.
    i) A- or higher for those domiciled in the UK
    ii) For those outside the UK, the country should have a sovereign rating of AA+ or higher
    iii) At least A- for pooled investments or money market funds.

Non-specified investments are those not meeting the definition of specified.

18. Counterparties will be selected based on the following criteria:-
- Banks – the Council will only use banks which have at least Fitch credit ratings or equivalent Moody's and Standard and Poor's ratings (where applicable) of Long Term A-.
- Building Societies – the Council will use credit rated Building Societies only
- Pooled funds with a weighted average maturity on investment returns and a Low Volatility or Constant Net Asset Value, includes MMFs
- UK Government
- Lloyds Bank Plc (Councils own bank)
- UK Local Authorities
- Corporate or private companies
- Registered Providers i.e. Housing Associations

It should be noted that, by adopting this approach, non-UK banks matching the selection criteria, will be eligible counterparties. Any transactions would, however, only be undertaken in sterling.

19. The Council can only use counterparties that meet the selection criteria, and it should be noted that market conditions will dictate which are actually used at any time. The Council does not intend to make any investments denominated in foreign currencies or for a period greater than 12 months.

20. The Authority has opted up to professional client status with its providers of financial services (advisers, banks, brokers and money market funds) as part of MIFID II (Markets in Financial Instruments Directive). This allows access to a greater range of services but with greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this is the most appropriate status.

Time and Monetary Limits Applying to Investments

21. Time Limits

The Council's time limit for fixed term deposits will be limited to 3 months or 6 months by specific approval of the Statutory Finance Officer.

Monetary Limits

Table 9 below shows the monetary limits for specified and non-specified Council investments.

- For financial institutions included within the same banking group the limit will apply to the group.
- Individual institutions will be categorised according to credit rating.

Table 9 –Monetary Limits for Specified and Non-Specified Investments

Credit Rating	Banks & Building Societies - Unsecured Investments	Banks & Building Societies- Secured Investments	Government and other local authorities	Corporates i.e. private companies	Registered Providers i.e. Housing Associations
UK Govt.	n/a	n/a	£35m	n/a	n/a
AAA	£4m	£5m	£5m	£3m	£5m
AA+	£4m	£5m	£5m	£3m	£5m
AA	£4m	£5m	£5m	£3m	£5m
AA-	£0.2m	£5m	£5m	£3m	£5m
A+	£0.2m	£5m	£5m	£3m	£3m
A	£0.2m	£5m	£5m	£3m	£3m
A-	£0.2m	£5m	£3m	£3m	£3m
None	n/a	n/a	n/a	£50,000	£50,000
Pooled funds (MMF)	£7m per fund				

The above table headings are further described below:-

- Banks unsecured investments are those subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Bail-in involves shareholders of a failing institution being divested of their shares, and creditors of the institution having their claims cancelled or reduced to the extent necessary to restore the institution to financial viability. The shares can then be transferred to affected creditors, as appropriate, to provide compensation. This, in effect, is to stop Government bail-outs of failing institutions.
- Banks secured investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.
- Government investments are loans issued or guaranteed by national government, regional and local authorities. They are not subject to bail-in and there is insignificant risk of insolvency.
- Corporate investments are loans issued by companies. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.
- Registered providers of Social Housing issue loans and bonds guaranteed by or secured on their assets. As they provide a public service there is a likelihood of receiving government support if needed.

22. The criteria and limits specified above relate to the investments made on behalf of Torfaen County Borough Council. Any investment balance held on behalf of the Greater Gwent (Torfaen) Pension Fund is held and administered separately.

Treasury Management Advisor

23. There has been no change in the Council's treasury management advisor. The contract was awarded to Arlingclose Ltd on 1 September 2016 as a result of a formal tendering process. The contract is for a period of three years with the option to extend on 31 August 2019 for a further two years.

24. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remain with the Council. This service is subject to regular review.

Leasing Advisor

25. There has been no change in the Council's leasing advisor. The contract was awarded to Chrystal Consulting on 1 December 2016 as a result of a formal tendering process. The contract is for a period of three years with the option to extend on 31 August 2019 for a further two years.

Investment Training

26. The needs of the treasury management staff for training in investment management are assessed regularly as part of the staff appraisal process and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences.

Council's Current Bank

27. The Council's transactional bank is Lloyds PLC.

Treasury Management Practice (TMP) 5 - Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

This Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when this Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Statutory Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Statutory Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The present arrangements are as follows:

Daily dealing
Lead Finance Officer –Treasury & Control Accounting

Daily dealing (cover)
Lead Finance Officer – Capital Programme
Senior Accountant – Capital & Fixed Assets
Group Finance Officer – Corporate
Accountancy Support Assistant – Capital Programme

Daily dealing – 1st Authorising Officers
Lead Finance Officer – Treasury & Control Accounting
Lead Finance Officer – Capital Programme
Lead Finance Officer – Education
Lead Finance Officer – Social Care
Lead Finance Officer – Resources & Chief Execs
Senior Accountant – Capital & Fixed Assets
Group Finance Officer – Corporate
Group Finance Officer – Service
Group Finance Officer – Systems, Insurance & Creditors
Head of Financial Services

Daily Dealing – 2nd Authorising Officers
(Required in addition to and different from 1st authorising officers for transactions greater than £100,000)
Lead Finance Officer – Education
Lead Finance Officer – Social Care
Lead Finance Officer – Resources & Chief Execs

Group Finance Officer – Corporate Group Finance Officer – Service
Group Finance Officer – Systems, Insurance & Creditors
Head of Financial Services

The Statutory Finance Officer will ensure that there is full documentation for all transactions, and that procedures exist for the effective transmission of funds.

The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and Treasury Management Practices and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Leasing

The Council continues to utilise leasing as an optional method of funding the acquisition of plant, equipment and vehicles. Chrystal Consulting is the Council's current consultants/advisors on leasing matters. The Statutory Finance Officer and his nominated staff, with the assistance of the leasing consultant will negotiate and accept the most economically advantageous quote in respect of each individual drawdown during the financial year. Only the following officers have the authority to sign documentation in respect of leasing agreements:

a) Statutory Finance Officer
b) Head of Financial Services
c) Group Finance Officer - Corporate
d) Group Finance Officer - Service

TMP 4 - Approved Instruments, Methods and Techniques

4.0 Approved Activities for the Management of the Treasury Function

4.1 The following list specifies the borrowing instruments which can be used.

Borrowing Instrument	Interest Fixed Rate	Interest Variable Rate
UK Government (currently PWLB)	Yes	Yes
Money Market - Long Term Borrowing	Yes	Yes
Money Market - Temporary Borrowing	Yes	Yes
Bank Overdraft	No	Yes
Stock Issues	Yes	Yes
Internal (Capital receipts/revenue balances)	Yes	Yes
Leasing	Yes	Yes
Bills & Certificates of Deposit	Yes	No

4.1.1 Description of borrowing options:-

i) The current UK Government body is Public Works Loan Board (PWLB) - A government agency which provides longer term loans to Local Authorities. This is the major source of long term borrowing for local authorities.

ii) Money Market - Long Term Borrowing: Borrowing from organisations through the London money markets e.g. banks/building societies. This sort of long term finance has decreased in popularity as PWLB rates tend to be set slightly below the market rate.

iii) Money Market - Temporary Borrowing: Undertaken to finance short-term cash flow shortages.

iv) Bank Overdraft - Temporary borrowing from the Council's bankers.

v) Stock Issues: These are usually only available for large amounts, i.e. £50m plus. This is far in excess of the Council's expected requirements and is unlikely to be used.

vi) Internal - This is the use of internal resources reducing the need for external borrowing.

vii) Bills - The Council has the power to issue bills which are also loan instruments, transferable by delivery and under which all payments and repayments fall to be made not later than 187 days from the date of issue. There is no specific requirement that bills be issued for revenue rather than capital purposes. It is unlikely that the Council will use this type of borrowing as the other forms of borrowing are more readily available to local authorities.

viii) Certificates of Deposit - These are Negotiable Instruments which are issued by Prime Banks and Building Societies. They are tradable in the Market at the prevailing interest rates. It is unlikely that the Council will use this type of borrowing as rates tend to be more favourable for the alternative borrowing options listed above.

4.2 The Authority will not engage in any borrowing or lending activities other than those set out above.

4.3 Borrowing

4.3.1 The Statutory Finance Officer will report prior to the commencement of the financial year to the Council on the Treasury Management Strategy showing how the proposed Capital Programme of the Authority will be financed. It will be the function of the Statutory Finance Officer to calculate from cash flow forecasts the requirements of the Authority to borrow. This will include assessment of the requirements of the capital programme, as well as the replacement of maturing debt.

4.3.2 Funds may be borrowed in sterling from any credit institution.

4.3.3 The maturity pattern of all outstanding debt must be reviewed before any new long-term loan is taken and a prudent maturity profile maintained.

4.4 Leasing

4.4.1 Leasing will be considered as an option to fund the acquisition of plant, equipment and vehicles.

4.4.2 Chrystal has been appointed as the Council's consultants / advisors for leasing. They will assist with the preparation of the invitation to quote and circulate the invitation to lessors that they feel are appropriate for the type of asset to be leased. The Statutory Finance Officer and his nominated staff will negotiate and accept the most economically advantageous quote in respect of each individual drawdown during the financial year. In the absence of the Statutory Finance Officer, only the following Officers have the authority to sign documentation in respect of leasing agreements.

a) Head of Financial Services
b) Group Finance Officer - Corporate
c) Group Finance Officer - Service

4.5 Investments

4.5.1 It will be the function of the Statutory Finance Officer to calculate from cash flow forecasts the extent of any surplus cash available for investment.

4.5.2 Subject to any specially negotiated domestic banking terms, there will be no requirement of the Authority to maintain a surplus cash balance in the bank account although such surpluses may occur from time to time.

4.5.3 The preparation of a lending list and establishing lending limits will be delegated to the Statutory Finance Officer but must be in accordance with the criteria laid out in paragraph 16, ANNEX B.

The investment strategy is reviewed and updated regularly. Significant changes are reported in the Council's Treasury Management and Prudential Guidelines

Report. The Annual Investment Strategy and Borrowing Strategy require full Council approval and are usually presented to Council in March of each year for use in the following financial year. Prior to full Council approval this annual report will be subject to Audit Committee scrutiny.

4.5.4 Arlingclose Ltd provides treasury management consultancy services to the Council.

4.5.5 It is expected that longer-term investments would only be made after:-

- The day to day cash requirements for revenue costs had been met.
- Maturing loan agreements had been paid.
- Other contractual obligations had been met.
- A suitable contingency for unforeseen events had been set aside.
- In accordance with the most current Treasury Policy Statement.

4.5.6 The Council will seek to ensure that the maximum amount of market, media and local intelligence is gathered and communicated to the Statutory Finance Officer to assist him in constantly reviewing sectors and individual institutions on the counterparty list. In year additions and deletions of institutions on the list are delegated to the Statutory Finance Officer. In any event, the list of counterparties will be notified to the Council and reviewed as part of the annual review of the Treasury Policy Statement or more frequently if circumstances dictate.

4.5.7 In 'normal' conditions, the total investments outstanding would be spread over the allowable maturity profile to ensure maturity risk is minimal. This is less relevant with a maximum investment period of only six months.

4.5.8 Occasionally, taking into account the prevailing interest rates and interest rate forecasts, it may be deemed prudent for the Council to enter into forward lending agreements. Forward lending enables councils to arrange to lend money at a specified later date at an agreed rate, which will remain the same, whatever happens to Money Market rates in the interim period. The duration of the deposit is also prearranged. The definition of forward lending has changed and the period of investment now starts when the commitment is made. Any forward dealing where the period of commitment exceeds 364 days will be a non-specified investment.

Forward lending is considered to be a legal treasury management tool.