

## TRAFFORD COUNCIL

**Report to:** Accounts and Audit Committee 6 February 2019  
Executive and Council 20 February 2019  
**Report for:** Decision  
**Report of:** The Executive Member for Finance and the Corporate  
Director of Finance and Systems

### Report Title

**TREASURY MANAGEMENT STRATEGY 2019/20 – 2021/22**

### Summary

This report outlines the:-

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

### Recommendations

That the Accounts & Audit Committee recommend Executive note the report and request Council to approve the Treasury Management Strategy 2019/20 – 2021/22 including the:

- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins  
Extension: 4017

Background papers: None

Relationship to Policy Framework / Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to maximise investment interest whilst minimising risk to the Council. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan.
Legal Implications:	Actions being taken are in accordance with legislation, Ministry of Housing, Communities & Local Government (MHCLG) guidance, Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice.
Equality/Diversity Implications	Any equality and diversity implications are as set out in this report
Sustainability Implications	Not applicable
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council's in-house treasury management team continually monitor risks to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times.
Health and Safety Implications	Not applicable

## **Summary**

The purpose of this report, which has been prepared in accordance with the Council's Financial Procedure Rules number 8, is to outline the forecasted treasury management activities for the forthcoming three years. Further reports are produced during the course of the year informing Members of the preceding financial year's actual activities together with a current mid-year update.

### **Economic position (Appendix 2)**

Brexit negotiations between the UK Government and the European Union are set to continue to dominate the headlines during the forthcoming year and the impact these will have on both economies remains uncertain at this time. The general world economic climate is likely to weaken from the current position and Appendix 2 highlights the main economic events of 2018 and projections for 2019 for reference.

### **Debt (Section 3)**

Borrowing interest rates whilst forecasted to rise marginally from their current position are still forecast to remain low during the next 12 months. Any new external borrowing will be taken to assist finance the Council's capital borrowing requirement as outlined in the 2019/22 Capital Programme report with all associated costs being contained within the Medium Term Financial Plan.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk.

### **Investments (See Section 5 and Appendix 3)**

The Council's investment criteria remains unchanged from that previously adopted of security of capital first, then liquidity of its cash flows and finally yields.

The Council is required to agree the lending criteria, which is primarily determined by credit ratings issued by the 3 major credit rating agencies as detailed at Appendix 3.

### **Prudential Indicators and limits (Section 7 and Appendix 3)**

The Council is required to approve a set of Prudential Indicators and limits ensuring the Council's capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

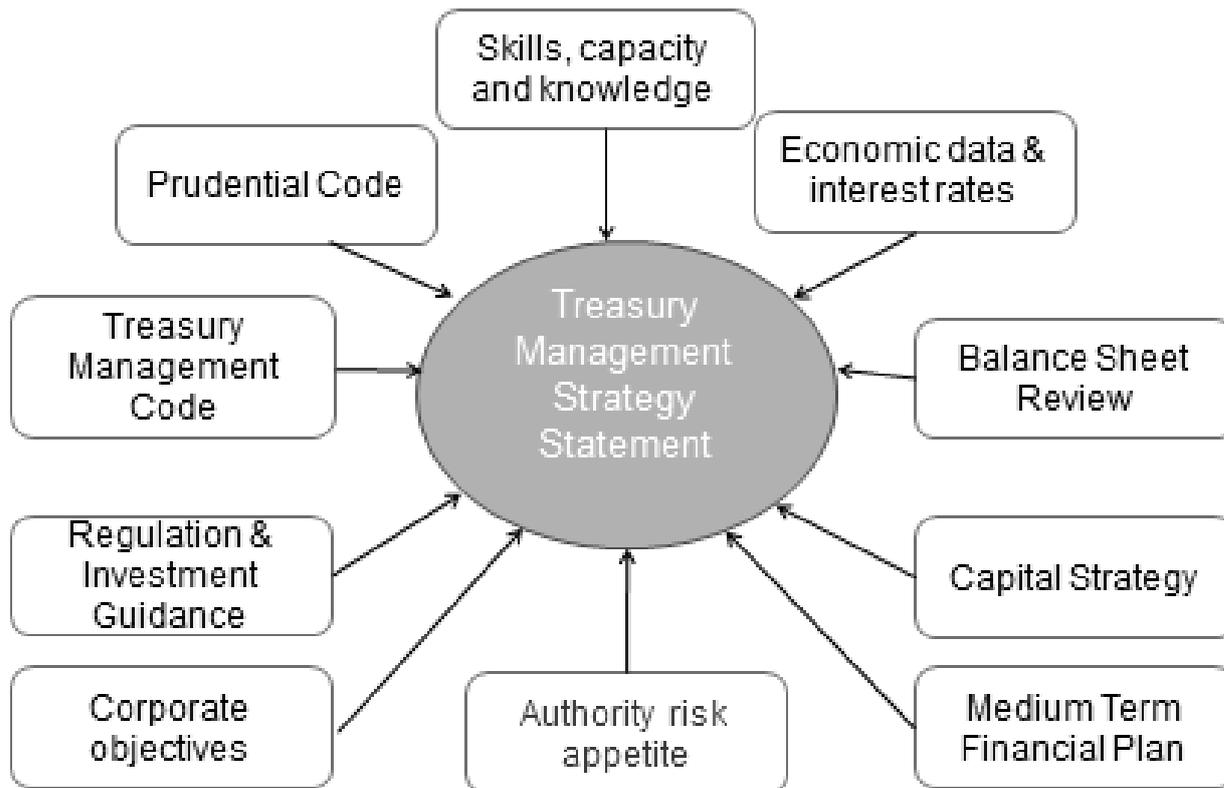
### **Medium Term Financial Plan (See Appendix 7)**

Appendix 7 reflects the current forecasted financial requirements of the Council's treasury management functions during this reporting period.

## Background

- 1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for spend incurred. Part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.
- 1.2 A further function of the treasury management service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is prudent to do so, any debt previously obtained may be restructured.
- 1.3 The contribution the treasury management function makes to the Council's financial position is critical, as failure to provide sufficient funding on days of requirement would result in those payments not being made which could also have a serious negative impact on its reputation. In addition to this, cash balances generally result from reserves and balances and it is paramount to ensure adequate security of the sums invested is achieved as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 For Members reference the diagram below identifies all the necessary factors which are considered in preparing the Annual Treasury Management Strategy:

## Treasury Management – Key Drivers



- 1.5 Treasury management as defined by the Chartered Institute of Public Finance Accountancy (CIPFA) is:
- “The management of the local authority’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.”*
- 1.6 In December 2017, CIPFA issued a revised Treasury Management Code of Practice which primarily focused on non-treasury investments, particularly the purchase of property with a view to generating income. This update has clarified CIPFA’s position in that it has now drawn a cleaner separation between treasury and non-treasury investments, the latter being included in the Capital Programme report.
- 1.7 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities. Details of these transactions are shown in Appendix 8 for reference.
- 1.8 Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;
- **Annual treasury strategy** (issued February and includes);
    - A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
    - The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
    - An investment strategy (the parameters on how investments are to be managed).
  - **Mid-year update** – (issued November / December and provides an);
    - update for members with the progress of the treasury management activities undertaken for the period April to September and
    - opportunity for amending prudential indicators and any policies if necessary.
  - **Annual outturn** – (issued June and contains);
    - details of actual treasury operations undertaken in the previous financial year.
- 1.9 Each of the above 3 reports are required to be adequately scrutinised by the Accounts & Audit Committee before being recommended to either Executive or Council for final approval.
- 1.10 All treasury management transactions undertaken will comply with the statutory requirements together with Ministry of Housing Communities & Local Government (MHCLG) Guidance and CIPFA Treasury Management Code of Practice which the Council has previously adopted. A brief outline of these frameworks is provided at Appendix 1.
- 1.11 This report which has been prepared in accordance with the required statutory regulations and guidance includes;
- Economic & Interest Rate forecast (section 2)
  - Debt Strategy (section 3)
  - Minimum Revenue Provision (section 4)
  - Investment Strategy (section 5)

- Investment Risk Benchmarking (section 6)
- Prudential Indicators (section 7)
- Related Treasury Issues (section 8)
- Recommendations (section 9).

- 1.12 The Council uses Link Asset Services (LAS) as its treasury management advisors who provide a range of services on all treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in employing external providers for this service in order to acquire access to specialist skills and resources and the provision of this service is subject to regular review.
- 1.13 Whilst the advisors provide support to the in-house treasury management team, the Council recognises that the final decision on all treasury management matters remains with it at all times.
- 1.14 The scope of investments within the Council’s operations now includes both conventional treasury investments, (the placing of residual cash from the Council’s functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors and the Council uses CBRE in relation to this activity.
- 1.15 The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them.
- 1.16 In order to assist with this undertaking, a Member training event was provided on 16 October 2018 and similar events will be provided when required. Officers will continue to attend courses / seminars presented by CIPFA and other suitable professional organisations.

## 2. Economic & Interest Rate forecast

- 2.1 During 2018 the world economic growth was relatively good primarily due to strong growth generated in the United States of America (US) however the US position is forecasted to fall back in 2019 which together with a weakening economic position in China, has resulted in forecasters predicting the outlook for world growth to weaken from its current position.
- 2.2 Further details on the major economic events which occurred during 2018 and forecasts for 2019 are outlined at Appendix 2 for reference.
- 2.3 LAS produces interest rate projections periodically throughout the year and the latest forecasts (November 2018) covering the period up to March 2022, are highlighted in the table below;

Average rates	2018-19 Forecast %	2019-20 Forecast %	2020-21 Forecast %	2021-22 Forecast %
Bank Rate	0.70	1.00	1.35	1.75
Investment Rates (LIBID)				
3 month	0.70	1.10	1.45	1.80
1 Year	0.95	1.40	1.80	2.20
PWLB Loan Rates				
5 Year	1.95	2.25	2.45	2.70
25 Year	2.80	3.05	3.30	3.50

- 2.4 The interest rate forecasts provided by LAS above have been prepared on the assumption that an agreement is reached on Brexit between the UK and the EU.

In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut the Bank Rate from its current level of 0.75% in order to help economic growth with short to medium term borrowing rates also falling. If however there was a disorderly Brexit, then any cut in Bank Rate would likely last for a longer period of time and increase short and medium borrowing rates.

- 2.5 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both LAS and other external sources which may become available during this time.

### **3. Debt Strategy**

- 3.1 The level of the Council's loans as at 31 December 2018 totalled £195.9m which is split between Public Works Loan Board (PWLB) £155.5m & Market (banks & publically funded companies) £40.4m. A breakdown of this debt is provided for reference at Appendix 6.
- 3.2 The Council holds, as mentioned above £40.4m of Market loans and of these £20.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. On this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Corporate Director of Finance and Systems delegated authority, should an opportunity present itself to repay a LOBO loan then this option will be fully examined to determine whether any financial benefit could be obtained including taking a replacement loan from the PWLB. The remainder of the Market loans, £20.4m are held at fixed rates of interest.
- 3.3 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.6m of loan debt administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.
- 3.4 The underlying need to borrow derives from the Capital Financing Requirement (CFR) and represents the level of capital expenditure incurred which has not yet been paid for by revenue or other capital resources, for example capital receipts or grants.
- 3.5 The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the Minimum Revenue Provision. The Minimum Revenue Provision charge reduces the CFR each year.
- 3.6 Also included within the CFR are any other long-term liabilities (e.g. Private Finance Initiative (PFI) schemes and finance leases) and whilst these increase its overall balance the Council's borrowing requirement is not increased as this type of scheme includes a borrowing facility by the PFI or lease provider. The Council currently has £5.3m liability of such schemes within the CFR which is set to fall to £4.5m as highlighted in the table below;

	2018/19	2019/20	2020/21	2021/22
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Other long-term liabilities – (1 April)	5,556	5,319	5,067	4,799
Expected repayment	(237)	(252)	(268)	(285)
Other long-term liabilities – (31 March)	5,319	5,067	4,799	4,514

- 3.7 As a result of previous years capital spending being temporarily financed by cash supporting the Council's reserves, balances and cash flow, it has avoided the need for new external loans to be taken out resulting in the Council continuing to be in an under-borrowed position (CFR balance being higher than the level of external debt). As at 31 March 2018 the Council's under borrowed position was £30.7m and this is currently set to rise to £41.0m by 31 March 2019.
- 3.8 This policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years due to debt interest rates being consistently higher than investment returns and which is forecasted to continue for the foreseeable future. This situation however will continue to be carefully monitored to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 3.9 Included within the Council's MTFP is a limited budgetary provision to cover interest costs for taking on new debt and the amount applied to finance the capital spend incurred, principal, is being reinstated via the Council's annual MRP charge which is explained in more detail at section 4 and Appendix 3.
- 3.10 The Corporate Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2019/20 treasury operations before taking on any new debt to finance a proportion of the Council's capital investment projects or Asset Investment Property programme.
- 3.11 The table below highlights the potential level of external debt the Council may need to undertake during the period 2018/19 to 2021/22 ;

	2018/19	2019/20	2020/21	2021/22
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
<b>Debt at 1 April</b>	<b>164,268</b>	<b>438,291</b>	<b>552,850</b>	<b>548,301</b>
<b>External Debt maturing</b>	<b>(4,018)</b>	<b>(4,791)</b>	<b>(16,495)</b>	<b>(3,215)</b>
<b>New Debt requirement</b>	<b>278,041</b>	<b>119,530</b>	<b>11,943</b>	<b>100</b>
<b>Debt at 31 March</b>	<b>438,291</b>	<b>552,850</b>	<b>548,301</b>	<b>545,186</b>

- 3.12 In order to assist short term cash flow or finance longer term capital investment, the Council has the powers to borrow new funds from a variety of sources comprising of;
- Other local authorities,
  - The Government via the Public Works Loan Board, (PWLb),
  - Dedicated publicly funded companies e.g. Salix,

- Municipal Bond Agency, or
  - Financial institutions within the money market.
- 3.13 In the event the Corporate Director of Finance and Systems takes out any new debt or undertakes any restructuring, this action will be processed in accordance with the Council's approved scheme of delegation and reported to Members at the earliest opportunity.
- 3.14 The uptake of new long term debt is done in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.
- 3.15 In a few instances, short term borrowing (up to 3 years) will need to be taken out prior to a receipt or income stream being received which would then be used to service debt costs. Based on the current capital programme spend profile this is currently forecasted to cost the Council £184k for the period 2019 to 2022 and is based on expenditure totalling £9.9m which will be temporarily funded from the Council's reserves.
- 3.16 As short term borrowing rates are cheaper than longer term fixed interest rates, there may be potential opportunities to repay debt prematurely. The cost of premiums incurred however due to early repayment, will be taken into account before any restructuring is undertaken.
- 3.17 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. a sharp rise in interest rates is suddenly expected and any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates
- 3.18 No new loans will be taken ahead of schedule purely to profit from the investment of the extra sums borrowed and any borrowing taken by the Corporate Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;
- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be obtained in this manner and
  - the Council would not look to borrow more than 12 months in advance of need.
- 3.19 The Council's debt maturity profile is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans.
- 3.20 *The Council is required to approve;*
- *the above debt strategy and*
  - *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3.*

#### **4. Minimum Revenue Provision Strategy**

- 4.1 The Council is required to set aside an amount each year for the repayment of debt (by reducing the CFR), through a revenue charge called the Minimum Revenue Provision (MRP). In addition, the Council is also allowed to undertake Voluntary Revenue Payments (VRP) if required.
- 4.2 *The Council is requested, in accordance with MHCLG regulations, to approve an MRP Statement in advance of each year and this is detailed at Appendix 3.*

## 5. Investment Strategy

- 5.1 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 Council's Asset Investment Strategy, are covered in the Capital Strategy, (a separate report).
- 5.2 The Council undertakes investments, in the form of temporary surplus income which has been received in advance of spend requirement and from its balances and reserves which it holds. The primary principle governing the Council's investment criteria is **SLY**, **S**ecurity of its investments, followed by **L**iquidity whilst ensuring that a reasonable level of **Y**ield is also achieved.
- 5.3 In the continuing environment of low investment interest rates the Council is restricted in its operations to be able to generate a significant return from its investments without exposing it to additional risk factors. To search for that extra return in order to ease revenue budget pressures would expose the Council to more risk of using an institution which could possibly default. The current approach of applying SLY as outlined at paragraph 5.2 above will therefore continue to be adopted.
- 5.4 With respect to this, the Council's in-house treasury management team will not actively seek to place funds with institutions paying considerably over and above market levels and will continue to carry out proper and full risk assessments of any new product which may come onto the market before committing funds into it.
- 5.5 All of the Council's investments are undertaken in accordance with guidance issued by both the MHCLG and CIPFA and whilst investment risk will never completely be eliminated, it can be minimised and in order to reduce the risk of an institution defaulting, the Council creates and maintains a list of high creditworthy institutions which enables it to place funds across a wide range of strong quality institutions.
- 5.6 The Council will only use institutions which are located in a country with a minimum Sovereign Long term credit rating of AA-. A list is achieved by stipulating that where an institution has been issued with a credit rating it must have a minimum Long Term rating of A- and Short Term rating of F1 or equivalent as issued by 2 of the 3 main independent rating agencies Fitch, Moody's and Standard and Poor's. These minimum requirements represent, in the opinion of the credit rating agencies, the long and short term (greater than 12 months and up to 12 months respectively) financial strength of that institution.
- 5.7 This approach uses real time credit rating information provided by LAS and enables an institution should they meet or no longer meet the minimum credit criteria required to be immediately included on or removed off the approved list.
- 5.8 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.
- 5.9 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. To achieve this, the Council will with LAS, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.
- 5.10 In all instances when funds are being placed, the Council's in-house treasury management team will, apart from when it places funds with other local authorities which are predominately unrated and Money Market Funds as only AAA rated funds are used, always ensure that the institution:

- has been issued with both a Long and Short term credit rating from 2 of the 3 main agencies,
  - that the credit ratings issued meet the minimum required and the institution appears on the Council's approved list,
  - has a minimum Long Term rating of AA if funds are to be placed for a period in excess of 1 year,
  - that the CDS, where issued, does not show any adverse confidence in the institution and
  - the rate of interest rate being offered is in-line with levels paid by other institutions in the market for the same period.
- 5.11 Investment instruments identified for use in the financial year together with institution limits are detailed in Appendix 3.
- 5.12 Members are asked to approve this base criteria, however the Corporate Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.
- 5.13 Investments will continue to be placed into three categories as follows;
- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank call / notice accounts and money market funds being the main methods used for this purpose.
  - Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
  - Long-term – cash not required to meet any forthcoming cash flow requirements which can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund, after taking into consideration the forecasted interest rate yield curve.
- 5.14 Use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator detailed at Appendix 3.
- 5.15 The largest UK banks were required by UK law, to separate core retail banking services (day to day operations) ring-fenced bank, (RFB) from their investment and international banking non-ring-fenced bank, (NRFB) activities from 1st January 2019. This is intended to ensure that the bank's core activities are not adversely affected from its more risky business. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not and the Council will continue to assess the banks in the same way that it does with any other investment institution.
- 5.16 The level of the Council's investments together with the average interest rate, as at 31 December 2018, is provided for reference at Appendix 6.
- 5.17 *The Council is requested to approve;*
- *the adoption of the above Investment strategy and*
  - *the minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied as set out at Appendix 3.*

## 6. Investment Risk Benchmarking

- 6.1 The CIPFA Code of Practice and MHCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members with details of these being provided in Appendix 5.
- 6.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference the benchmarks proposed are;

- Security - each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.05%	0.04%	0.10%

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At 31 December 2018 the Council's default rate of its investments placed was 0.011% which is 0.039% below the 1 year benchmark of 0.05%.

- Liquidity – Weighted Average Life (WAL) - benchmark for 2019/20 is set at 6 months, with a maximum of 3 years for cash time deposits;
  - Liquid short term deposits - at least £10m is available within a week notice;
- Yield - Internal returns are aimed to achieve above the 7 day London Interbank Deposit (LIBID) rate without sacrificing any Security aspects.

## 7. Prudential Indicators

- 7.1 A number of prudential indicators have been devised for the treasury management process and these have been designed to assist managing risk and reducing the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities being undertaken and at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.
- 7.2 *Members are requested to approve the Prudential Indicators for the Council's treasury management activities as detailed at Appendix 3.*

## 8. Related Treasury Issues

- 8.1 Greater Manchester Pension fund (GMPF). During 2017/18, the Council along with several other local Councils took advantage of GMPF wider investment powers and paid over 3 years' employer pension contributions at a discounted rate.
- 8.2 Asset Investment Strategy. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant economic development and regeneration benefits for the area and/or increase the Council's income generating capacity thereby enabling it to maintain the provision of services in future years.

- 8.3 Whilst the above projects are policy related activities and therefore not deemed to be treasury management, their implementation will have an impact on the Council's cash flow which is considered on each occasion.
- 8.4 International Financial Reporting Standards 9 (IFRS9) – This is being introduced in response to the 2008 financial crisis and is designed to generate transparency in the Council's accounts enabling the reader to fully assess the worth and risk of its financial instruments. IFRS 9 is primarily a re-classification not a re-valuation exercise and its introduction is not envisaged to have any major impact for the Council. A possible effect would be however arising from an asset previously being shown on the balance sheet under the available for sale category e.g. property funds, which will now be changed to Fair Value through the Profit and Loss (FVPL) with any profit or loss in revaluation being taken to the accounts in full in the year of measurement. To mitigate against this and in response to previous consultation, MHCLG have issued a 5 year override to enable Councils to either arrange for a planned exit over a reasonable time or for potential surpluses to be placed into an unusable reserve and applied to overcome those years when a downward revaluation occurs. The Council will be required to disclose the net impact of the unusable reserve throughout the duration of the 5 year override in order for the Government to keep the override under review and to maintain a form of transparency.

## **9. Recommendations**

That the Accounts & Audit Committee recommend Executive note the report and request Council to approve the Treasury Management Strategy 2019/20 – 2021/22 including the:

- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

### **Other Options**

This report has been produced in order to comply with Financial Procedure Rules and relevant legislation. It provides a plan of action for the period 2019/20 to 2021/22, which is flexible enough to take account of changes in financial markets. There are an almost infinite number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach which is recommended by the Corporate Director of Finance and Systems.

### **Consultation**

Advice has been obtained from Link Asset Services, the Council's external advisors.

### **Reasons for Recommendation**

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will

operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and MHCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

**Key Decision**

This will be a key decision likely to be taken in: February 2019

This is a key decision currently on the Forward Plan: Yes

**Finance Officer Clearance GB**

**Legal Officer Clearance DS**



**Corporate Director's Signature**

**STATUTORY FRAMEWORK****Local Government Act 2003**

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the MHCLG investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

**CIPFA Code of Practice**

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

**Investment Guidance**

MHCLG issued Investment Guidance in 2004 with subsequent amendments being issued periodically thereafter. This Guidance forms the structure of the Council's Investment policy as set out below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

## MAIN ECONOMIC HEADLINES DURING 2018

### GLOBAL-

- World growth was good as a result of strong economic growth in the US however during 2019 this situation is not expected to continue due to a weakening in both the US and China economies being forecasted. In October the International Monetary Fund issued updated forecasts for world growth at 3.7% for both 2018 and 2019.
- Inflation has been primarily weak during the year however as a result of unemployment rates falling to low levels in both the US and UK, an increase in wage inflation is likely to force central banks into a series of increases in bank rates.
- Since the financial crash of 2008 it can now be seen that the measures put in place by the central banks of reducing central bank interest rates together with injecting financial markets with liquidity by Quantitative Easing (a procedure where central banks bought large amounts of central government and other smaller sums of debt), has been successful.

### UK-

- The first quarter's pessimism resulting from the adverse weather caused a temporary downward blip for growth of 0.1%, however since then strong returns of 0.4% in quarter 2 and 0.6% for quarter 3 were achieved in response to strong performance in the service sector, the good summer weather and England's World Cup exploits. The outlook for quarter 4 is expected to weaken from this level with the overall growth for 2018 forecasted to be 1.3% y/y.
- Consumer Price Index (CPI) fell from the January 2018 position of 2.7% to 2.0% in December 2018.
- The latest Bank of England quarterly inflation report (November), highlighted that inflation was forecasted to still be marginally above its 2% target in 2020 at about 2.1%.
- At the Monetary Policy Committee, (MPC), meeting in August 2018 the Bank Rate was increased from 0.50% to 0.75%, its highest level since 2008. At their November meeting, the MPC repeated their previous statement that future Bank Rate increases would be gradual and likely to peak at around 2.5% in 2028. It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit however the next increase in Bank Rate is now forecast to be in May 2019 with increases thereafter to be in February and November 2020 before ending up at 2.0% in February 2022.
- Unemployment continues to be at a 43 year low of 4% with employers now having major difficulties filling job vacancies with suitable staff. As a result of which wage inflation picked up to 0.7%, the highest level since 2009 in real terms, wage rates less CPI inflation.

### Eurozone –

- Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, however it is still expected to be in the region of nearly 2% y/y.

- Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018.
- Inflationary pressures are starting to build with CPI being 1.9% in November after starting the year in January at 1.3%. As a result of this it is expected that the ECB will start to increase rates towards the end of 2019 from their current level of 0.00% where they have been since 2016.
- Unemployment rate fell from 8.6% in January 2017 to 8.1% in October.

## **US –**

- President Trump's massive easing of fiscal policy is generating a temporary boost in consumption which has generated strong growth. The annualised growth rate for quarter 1 was 2.2% peaking at 4.2% in quarter 2 with quarter 3 coming in at 3.5%.
- Unemployment fell from an opening position of 4.1% in January to a 49 year low of 3.9% in December.
- CPI inflation has over the year been consistently over the target rate of 2%, being 2.2% in November after peaking at 2.9% in July.
- In response to the high CPI position, the Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018. They also indicated that they now expected rates would be increased a further two more times by the end of 2019. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.
- The current tariff war between the US and China is not expected to have a significant effect on US or world growth.

## **Other –**

- China's economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus. Concerns remain that official economic statistics are inflating the published rate of growth.
- Japan continues to struggle to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

## MAIN ECONOMIC FORECASTS FOR 2019

Producing accurate economic forecasts remains difficult as many external factors have an impact on them. Forecasters are currently predicting the following levels of activity for the year ahead and these will be liable to further amendment depending on how economic data and developments in financial markets emerge over the next year. Geopolitical developments, especially in the EU, could also have a major impact;

<b>Indicator</b>	<b>UK</b>	<b>Eurozone</b>	<b>US</b>	<b>China</b>
<b>Growth Domestic Product</b>	1.6%	2.1%	2.7%	6.5%
<b>Consumer Price Index</b>	2.0%	1.9%	2.4%	2.5%
<b>Unemployment Rate</b>	3.7%	7.5%	3.8%	4.2%
<b>Bank Rate</b>	1.25%	0.25%	3.00%	4.50%

Source - Trading Economics & Office for Budget Responsibility

## ELEMENTS FOR COUNCIL APPROVAL

### (including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current MHCLG Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

*The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2019/20 – 2021/22 as detailed below.*

### **TREASURY PRUDENTIAL INDICATORS AND LIMITS –**

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
<b>Authorised Limit for External debt</b>				
- Non-Commercial	170.0	180.0	185.0	185.0
- Asset Investments	300.0	400.0	400.0	400.0
- Other long term Liabilities (PFI)	5.5	5.5	5.0	5.0
<b>Total</b>	<b>475.5</b>	<b>585.5</b>	<b>585.0</b>	<b>585.0</b>
<b>Authorised external debt limit</b> - This is a key prudential indicator and represents a control on the maximum level of borrowing that the Council will require for all known potential requirements including headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.				
	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
<b>Operational Boundary for External debt</b>				
- Non-Commercial	155.0	165.0	170.0	170.0
- Asset Investments	300.0	400.0	400.0	400.0
- Other long term Liabilities (PFI)	5.5	5.5	5.0	5.0
<b>Total</b>	<b>460.5</b>	<b>570.5</b>	<b>575.0</b>	<b>575.0</b>

<b>Operational boundary</b> - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.				
	<b>2018/19 estimate £m</b>	<b>2019/20 estimate £m</b>	<b>2020/21 estimate £m</b>	<b>2021/22 estimate £m</b>
<b>Upper limit for Principal sums invested over 1 Year</b>	<b>90</b>	<b>90</b>	<b>90</b>	<b>90</b>
<b>Upper Limit for sums invested for over 1 year</b> – these limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment. Included within this limit are the Manchester Airport Shares which at 31 March 2018 were independently valued at £51.9m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m.				
	<b>2018/19 estimate £m</b>	<b>2019/20 estimate £m</b>	<b>2020/21 estimate £m</b>	<b>2021/22 estimate £m</b>
<b>Upper limits on fixed interest rate exposure based on net debt</b>	<b>5.1</b>	<b>12.8</b>	<b>12.8</b>	<b>12.2</b>
<b>Upper limits on variable interest rate exposure based on net debt</b>	<b>2.2</b>	<b>2.4</b>	<b>2.7</b>	<b>3.1</b>
<b>Upper Interest Limits</b> – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council’s debt position net of investments.				

<b>Maturity structure of all external loan debt – 2019/20 to 2021/22</b>	<b>Lower limit %</b>	<b>Upper limit %</b>
Under 12 months	0	30
12 months to 2 years	0	30
2 years to 5 years	0	30
5 years to 10 years	0	30
10 years to 20 years	0	30
20 years to 30 years	0	30
30 years to 40 years	0	30
40 years and above	0	90
<b>Maturity Structure of Borrowing</b> – these gross limits are set to reduce the		

Council's exposure to large sums falling due for refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

**Gross Debt and the Capital Financing Requirement** – this reflects that over the medium term, debt will only be for capital purposes. The Corporate Director of Finance and Systems will ensure:

- that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council and
- that this requirement has been complied with in the current year, does not envisage difficulties for the future and takes into account current commitments.

All the treasury prudential indicators and limits are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

### **MINIMUM REVENUE PROVISION - (minor changes to policy as highlighted)**

In accordance with the current MHCLG Guidance, the Council shall determine for the current financial year, an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for its annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- Capital expenditure financed by Supported Borrowing: MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- Capital expenditure financed by Prudential Borrowing: MRP will be based on the estimated life of the assets once operational charged on a straight line or annuity basis in accordance with MHCLG guidance;
- Asset Investment Strategy financed by Prudential Borrowing: Voluntary Revenue Provision (VRP) using the periods stipulated within the MHCLG Guidance of up to 50 years will be applied. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken. If the capital receipt is applied then the VRP previously set-aside will have been undertaken for no purpose and therefore can be reclaimed. Annual reviews will be undertaken to ensure that this policy remains prudent and as at 31 March 2019 the total VRP overpayments are forecasted to be £0.955m.
- PFI schemes and leases shown on the balance sheet: MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- For expenditure that does not create an asset, or following the use of a Capitalisation Direction: provision will be made over a period not exceeding 20 years, in accordance with the 2010 Guidance;
- In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as

“Serviced debt” and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

- In response to the policy agreed by Council on 22 February 2017, MRP on debt incurred pre 2007/08 was to be provided for using a more appropriately linked procedure based on the average useful life of its assets. As a result of this it was established that the Council has, during the period 2007/08 to 2014/15, previously over-provided MRP by £9.93m. This level of overpayment will be recovered by reducing the annual MRP charge equally over the next four years commencing 2016/17 with the unused MRP budget being transferred to an ‘Investment Fund’ Earmarked Reserve. The use of this Investment Fund will only being deployed on sustainable income generating or ‘invest to save’ i.e. revenue saving programmes or projects of work. This reserve has been applied to support the additional shareholder loan for the Manchester Airport Group which was approved by the Executive on 30 October 2017.

## **INVESTMENT CRITERIA – (minor changes to policy as highlighted)**

### **Counterparty Selection**

The Council will only use institutions which are located in a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and for categories 1 to 4 this will be applied to both Specified and Non-specified investments. Category 5 applies only to The Church Commissioners Local Authorities Property Investment fund.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	<b>Fitch (or equivalent) – Long Term</b>	<b>Maximum Group Limit</b>	<b>Maximum Time Limit</b>
<b>Category 1 –</b> •UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), •UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA	£75m	3yrs
	A+ to AA-	£25m	1yr
	A- to A	£10m	1yr
<b>Category 2 –</b> UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr

	<b>Fitch (or equivalent) – Long Term</b>	<b>Maximum Group Limit</b>	<b>Maximum Time Limit</b>
<b>Category 3 –</b> The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day
<b>Category 4 –</b> <ul style="list-style-type: none"> <li>• Pooled Investment Vehicles: <ul style="list-style-type: none"> <li>➢ Money Market Funds</li> <li>➢ Ultra-Short Dated Bond Funds</li> </ul> </li> <li>• UK Government (including treasury bills, gilts and the DMO)</li> <li>• Local Authorities</li> <li>• Supranational Institutions</li> </ul>	AAA AA - - -	£100m	3yrs
<b>Category 5 –</b> <ul style="list-style-type: none"> <li>• Local Authority Property Investment fund</li> </ul>	-	£30m	10yrs

### **Specified and Non Specified Investments – (no change)**

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are both high security and liquidity investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. All investments can be held under this definition,
- Non specified investments are any other type of investment not defined as specified above. A maximum of £90m is permitted to be held in this classification as detailed in Appendix 3, Prudential Indicator (5) Upper limit for sums invested over one year.

### **Instruments & Maximum period**

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Gilts or Certificates of Deposits unless otherwise stated below;

### **Specified Investments**

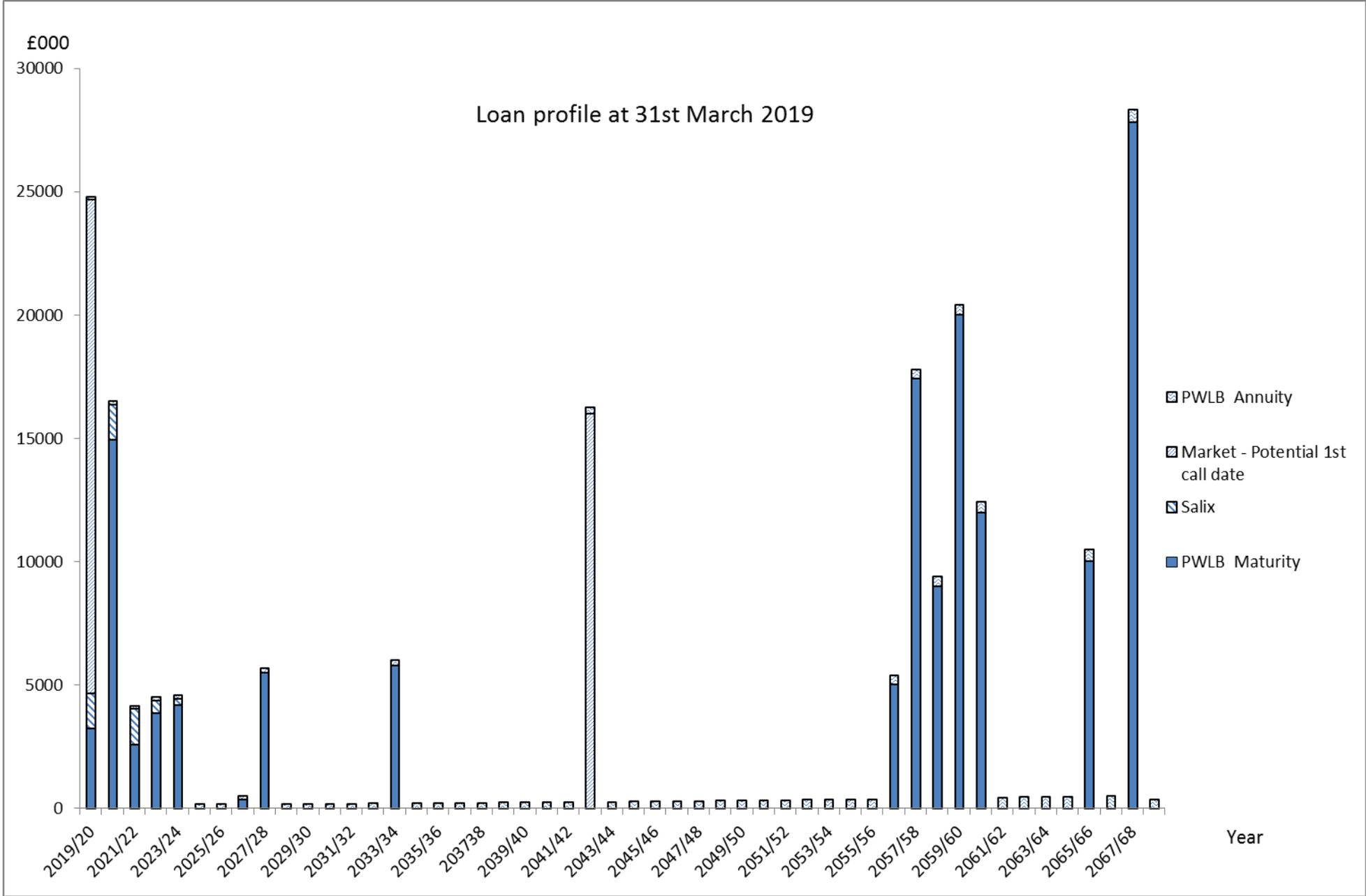
<b>Investment</b>	<b>Maximum Maturity</b>
<b>The UK Government</b> including Local Authorities and Debt Management Office.	1 Year
<b>Supranational bonds</b> of less than one year duration (e.g. International Monetary Fund)	1 Year

Investment	Maximum Maturity
<p><b>Pooled investment vehicles</b> that have been awarded an minimum AA credit rating by Fitch, a credit rating agency, such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) and low volatility bond funds.</p>	1 Year
<p><b>An institution</b> that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.</p>	1 Year

### Non-Specified Investments

Investment	Maximum Maturity
<p><b>Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank).</p> <p>The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.</p>	3 Years
<p><b>Gilt edged securities.</b> These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	3 Years
<p><b>The Council's own bank</b> if it fails to meet the basic credit criteria with balances being kept to a minimum.</p>	1 Day
<p><b>UK Banks which have significant Government holdings</b></p>	1 Year
<p><b>Any bank or building society</b> which meets the minimum long term credit criteria detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).</p>	3 Years
<p><b>The UK Government</b> including Local Authorities and Debt Management Office.</p>	3 Years
<p><b>Any non-rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to being guaranteed from the parent company and is included for clarity and transparency purposes.</p>	3 Years

Investment	Maximum Maturity
<p><b>Share capital or loan capital</b> in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £51.9m as reported in the 2017/18 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.</p>	Unspecified
<p><b>Manchester Airport Group</b> – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.</p>	Term of loans
<p><b>Church Commissioners Local Authorities Property Investment Fund</b> - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.</p>	10 Years



## INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

The Council receives credit rating advice from its treasury management advisers as and when ratings change and institutions are checked promptly to ensure they comply with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

Classification	Description	Credit Rating Agency		
		Fitch (Minimum)	Moody's (Minimum)	Standard & Poors (Minimum)
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1  (Range <b>F1+</b> , <b>F2 A to D</b> )	P1  (Range <b>P1</b> to <b>P3</b> )	A1  (Range <b>A-1</b> , to <b>C</b> )
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A-  (Range <b>AAA</b> to <b>D</b> )	A3  (Range <b>AAA</b> to <b>C</b> )	A-  (Range <b>AAA</b> to <b>CC</b> )

### Investment Institution information.

Whilst the Council's list of Investment institutions is prepared primarily using credit rating information, full regard is also given to other available information on the credit quality of each institution in which it invests. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

## Investment Limits

In order to safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

## Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

**Security** - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each Fitch/Moody's and Standard and Poors long term rating category over the period 1981 to 2017. The Council can place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
<b>AAA</b>	0.04%	0.10%	0.18%	0.27%	0.36%
<b>AA</b>	0.02%	0.04%	0.10%	0.17%	0.24%
<b>A</b>	0.05%	0.15%	0.28%	0.42%	0.59%
<b>BBB</b>	0.16%	0.44%	0.77%	1.15%	1.55%
<b>BB</b>	0.71%	2.00%	3.47%	4.92%	6.22%
<b>B</b>	2.90%	7.00%	10.67%	13.74%	16.12%
<b>C</b>	18.74%	26.47%	31.60%	35.37%	38.17%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

**Liquidity** – The current CIPFA Treasury Management Code of Practice defines this as *“having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives”*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

## INVESTMENT &amp; EXTERNAL DEBT POSITION AS AT 31.12.2018

	Principal £m	Average Rate %
<b>DEBT</b>		
<b>Fixed rate:</b>		
- PWLB	155.5	3.27
- Market	20.4	3.86
<b>Sub-total</b>	<b>175.9</b>	<b>3.34</b>
<b>Variable rate:</b>		
- PWLB	0.0	0.0
- Market	20.0	4.28
<b>Sub-total</b>	<b>20.0</b>	<b>4.28</b>
<b>Total debt</b>	<b>195.9</b>	<b>3.43</b>
<b>INVESTMENTS</b>		
- Fixed rate	(63.0)	0.95
- Variable rate	(18.7)	1.86
<b>Total Investments</b>	<b>(81.7)</b>	<b>1.16</b>
<b>NET ACTUAL DEBT / (INVESTMENTS)</b>	<b>114.2</b>	

## SUMMARY MEDIUM FINANCIAL PLAN 2019/20-2021/22

	2019/20 £000	2020/21 £000	2021/22 £000
<b>DEBT</b>			
Loan Interest	4,961	4,692	4,692
MRP	2,454	5,206*	5,206
Premium	548	548	548
Other – Sale PFI interest etc.	817	238	238
Sub-total	<b>8,307</b>	<b>10,778</b>	<b>10,778</b>
<b>INVESTMENTS</b>			
Interest	(1,257)	(1,353)	(1,353)
MAG	(7,195)	(7,695)	(7,763)
Sub-total	<b>(8,452)</b>	<b>(9,048)</b>	<b>(9,116)</b>
<b>TOTAL</b>	<b>353</b>	<b>1,636</b>	<b>1,569</b>

The above table reflects the MTFP treasury management position and excludes associated debt costs from any additional borrowing undertaken to fund the Council's Asset Investment Strategy which will be self-financing.

\*The increase in MRP reflects the completion of the 4 year realignment period whereby funds previously over provided are being placed into an Investment Fund.

## NON-TREASURY ACTIVITIES

Details of the actual spend incurred on the Council's non-treasury activities undertaken as at 31<sup>st</sup> December 2018 are outlined below:

Description	Total £m	Purpose
<b>General</b>		
Manchester Airport Group	19.9	Regeneration – 2 Shareholder loans
Homestep	1.0	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford
Lancashire County Cricket Club	4.0	Loan advanced for Regeneration purposes
Town Centre	0.3	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
<b>Sub-total</b>	<b>25.2</b>	
<b>Asset Investment Property</b>		
Sonova House - Warrington	12.1	
DSG - Preston	17.4	
The Grafton Centre - Altrincham	10.8	
Magistrates Courts - Sale	3.9	
Walthew House Lane - Wigan	13.7	
K Site Old Trafford		
- Equity contribution	7.0	
- Trafford / Bruntwood loan	7.0	
<b>Sub-total</b>	<b>71.9</b>	
<b>TOTAL</b>	<b>169.0</b>	