wakefieldcouncil working for you	**Report to:** **Cabinet** 12th February 2019
	Key Decision Yes **Forward Plan Ref No** **1589/0119**
Strategic Theme: All	**Portfolio** Leader
	Relevant Overview and Scrutiny Committee Overview and Scrutiny Management Board

REPORT OF: The Chief Finance Officer

WARDS AFFECTED: All

Subject: Capital and Investment Strategy 2019/20, Capital Programme 2019/20 to 2021/22 and Treasury Management 2019/20

1. Purpose of the Report

1.1 This report sets out the updated Capital Programme for 2018/19 to 2021/22 and includes an updated forecast of resources available over that period. The Council continues to deliver significant capital investment that will improve infrastructure, support economic regeneration and improve facilities across the District. The summary capital programme is included at Appendix 2.

1.2 This report also includes, at Appendix 1, the Council's Capital and Investment Strategy as required by the revised CIPFA Prudential Code.

1.3 The Treasury Management Strategy for 2019/20 is also included at Appendix 3.

2. Recommendations

That Cabinet recommend to Council:

2.1 Approval of the Capital and Investment Strategy 2019/20;

THIS REPORT AND BACKGROUND INFORMATION ARE OPEN TO INSPECTION BY MEMBERS OF THE PUBLIC.

2.2 Approval of the updated Capital Programme for 2019/20 to 2021/22;

2.3 Approval of the Treasury Management Strategy 2019/20; and

2.4 Approval of the Minimum Revenue Provision policy as included at Appendix 3, paragraph 2.3.

3. What does this mean for the District?

3.1 The Government's austerity drive has hit public services hard with Government funding cuts, and restrictions on the setting of council tax, business rates retention and potential localism. Adding to these pressures, the demand for public service such as health, social care and education has increased. There also remains marked inequality across areas of the country, with pockets of both deprivation and affluence. The continuing reductions in Government funding have the most detrimental impact on the most vulnerable across the District, those who rely most heavily on essential public services.

3.2 The Revenue Budget and Council Tax Report 2019/20, elsewhere on today's agenda, proposes that the Council aims to ensure that the Council's resources are aligned with its priorities to enable it to provide the best services possible; to respond to the views of stakeholders; and to support all residents to improve living standards.

3.3 Our ambition for the District is clear – to be a place where people thrive, businesses succeed and visitors are welcome. Supporting this ambition, the Council's priorities are:

- Successful businesses – growing higher value economy and creating good jobs

- Successful people – reducing inequalities, growing skill levels, enabling a good quality of life and supporting families

- Successful places – celebrating a unique cultural offer and creating vibrant communities that are better connected

- Successful council – ambitious, enterprising, dedicated and efficient in delivering excellent services.

3.4 The Council has developed a set of key principles that underpin how we work. These are that we:

a. Help people help themselves
b. Are business-minded and socially responsible
c. Provide a positive customer experience
d. Tackle poverty
e. Keep people safe at times of vulnerability
f. Are forward thinking
g. Intervene early
h. Have real impact
i. Champion good growth

3.5 The ability of the Council to shape the District in a way that positively supports residents and businesses is significant. The Council is uniquely placed to use its capital investment to help to drive regeneration and economic growth across the District.

3.6 Effective treasury management activity ensures that the Council makes best use of its cash flows and achieves the optimum balance between borrowing and investment. This helps to maximise the funds available to the Council to deliver essential services.

4. Background Information

4.1 The Council owns a diverse range of land and property, some 1,680 plus assets, including agricultural land, schools, libraries and museums, cemeteries and crematoriums, car parks, allotments, offices, workshops, depots, heritage buildings and storage accommodation. The Council also owns a portfolio of investment assets across the District which help to stimulate regeneration and economic growth and also provide revenue income to the Council.

4.2 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance which is consistent with those risks.

4.3 The Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003, whereby the Council must have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice.

4.4 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. All local authorities are required to prepare a Capital Strategy, to provide the following:

- To deliver a strategy that is consistent with the council's medium-term financial strategy
- to help to achieve the council's objectives and that capital investment decisions are made with reference to council priorities
- to ensure that decisions on the financing of the capital programme are taken with consideration to the impact on the revenue budget, the treasury management strategy and the investment strategy.

4.5 The aim of the report is to ensure that Council fully understands the overall strategy, governance, procedures and risk appetite entailed by the Strategy.

4.6 In preparing the capital programme update, ongoing reviews of the phasing of expenditure on existing capital schemes has been done, together with an up to date projection of capital resources. Where appropriate, scheme estimates have been updated and revised.

5. Summary Capital Programme

5.1 Table 1 below identifies the Council's capital programme for 2018/19 through to 2021/22. The programme has continued to be reviewed on a regular basis to identify slippage, re-phasing of capital projects and updates of the estimated costs of approved projects. Capital resources forecasts have also been reviewed and updated

Table 1 - Summary of the Capital Programme Expenditure

Programme Expenditure	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Total £000
Adults, Health and Communities	5,292	8,589	4,474	4,224	22,579
Corporate Services	1,922	7,237	4,108	2,370	15,637
Children & Young People	587	662	500	-	1,749
Council Wide Budgets	5,307	8,308	8,038	1,068	22,721
Regeneration & Economic Growth	42,048	65,294	55,811	14,145	177,298
Schools	14,665	11,697	15,618	10,034	52,014
Total Expenditure	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

5.2 The Capital Programme to 2021/22 reflects the following sources of funding;

- Government capital allocations either notified or anticipated
- Specific Government capital grants which the Council has been successful in securing
- Developer contributions obtained through Section 106 and other agreements
- Anticipated levels of capital receipts
- Prudential borrowing financed by the Treasury Management revenue budget

5.3 The capital programme contains over £292m of capital investment in the Wakefield District which supports the Council's key objectives and priorities. This level of investment is likely to increase as the Council continues to pursue its approach to securing additional funds through capital grant opportunities.

5.4 The Council will continue to maximise the use of capital resources to deliver regeneration ambitions and continue to maintain the strategic housing focus on securing the delivery of new homes and affordable housing.

5.5 The detailed capital programme at Appendix 2 sets out all the capital projects. There are a number of new projects injected into the capital programme that require specific approval: These include:

- The implementation of the Technology/ Digital Strategy £10m
- Local Area Infrastructure £1m
- Rolling programme replacement of vehicles and equipment £1.2m
- Refurbishment of houses for the homeless £350k
- S106 monies related to education £4m

5.6 Some other key areas of capital investment include;

- Capital Investment in Schools - £52.0m
- Investment Properties within the District - £50.0m
- Major Infrastructure Projects - £29.1m
- Five Towns Leisure Centre - £20.6m
- Carriageways / Roads - £16.0m
- Vehicles & Equipment - £15.9m
- Better Care Fund - £15.3m
- Wakefield Waterfront - £10.2m
- Highways Structural Maintenance - £10.2m

5.7 The principal aim of the resourcing strategy is to meet the capital financing requirements of the programme in the most financially viable way. The strategy takes into account the Council's policy on the Minimum Revenue Provision included within the Treasury Management strategy.

6. Funding the Capital Programme

6.1 The Council's capital programme is prepared in context of the overall resources available. Only those schemes supported by a robust business case and which support the Council's objectives and priorities will progress.

6.2 The Chief Finance Officer will consider the capital programme in its entirety assessing the categories of projects and financial resources available and make the final decision on how the programme is financed

Table 2 - Summary of the Capital Programme Funding

Programme Funding	**Budget 2018/19 £000**	**Budget 2019/20 £000**	**Budget 2020/21 £000**	**Budget 2021/22 £000**	**Total £000**
Prudential Borrowing	30,817	74,387	58,118	11,502	174,824
Grants - Government	33,062	18,429	24,154	18,729	94,374
Other Grants and Contributions	3,942	4,518	2,915	425	11,800
Capital Receipts	2,000	4,453	3,362	1,185	11,000
Total Funding	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

6.3 **Government Grants** – capital funding from Central Government is split into two main categories;

i) Non-ring fenced – this is funding from Government that is allocated through grant. As it is not ring-fenced, the Council has flexibility in how grant funding is used, although there may be an expectation of use for a specific purpose. Most funding from Government is now non-ring fenced and whilst initially, the funding may be allocated to a specific service area, it can be used to fund prioritised projects across the Council with the exception of Transport, Better Care Fund and Basic Need. Generally, this grant funding will be the first call on resources to finance priority projects within the capital programme.

ii) Ring fenced – the Council also receives funding from Government which is ring-fenced to particular services and therefore has restricted use. For example, Targeted Basic Need grant is only to be used to fund school expansions.

6.4 **Non-government contributions –** some capital projects are financed wholly or in part through external grants and contributions that are specific to projects and cannot be used for other purposes. These are a valuable source of capital finance and have enabled the Council to deliver a substantial number of capital developments that would otherwise have been unable to progress. In the last few years, the Wakefield Eastern Relief Road and the Northern Link Road have been completed, funded by the West Yorkshire Combined Authority (WYCA).

6.5 **Section 106 agreements** – section 106 of the Town and Country Planning Act 1990 allows the Council to seek to secure benefits to an area or restrict uses or activities related to a proposed development when considering a planning application. In order to improve the quality of the proposed development and therefore obtain planning permission, the Council may require the developer to fund particular works. The provision of the funding is generally contingent on a certain stage in a development being met. Once the contributions are received, there is usually a time limit within which they must be spent.

6.6 **Community Infrastructure Levy (CIL)** - the CIL is governed by the Community Infrastructure Levy (Amendment) Regulations 2013. It is a levy that Councils in England and Wales can choose to charge to developers and landowners when developments commence. A percentage of the charge resulting from a new development must be spent on community infrastructure in the neighbourhoods affected by development, in consultation with those communities. Whilst similar to the Section 106 monies, it does not replace it. The charges apply to new residential developments, retail warehouses and large supermarkets. The charges are based on viability evidence and are set at a rate that is affordable, without impacting on the delivery of development.

6.7 **VAT shelter** - one of the implications of the housing stock transfer to Wakefield District Homes (WDH) in 2004 is the creation of the VAT shelter. This allows WDH to obtain the same VAT exemption on its capital works as the Council. This saving is shared between the Council and WDH. The shelter only applies to first-time improvements and will end in 2022/23.

6.8 **Prudential Borrowing -** the Council can use this type of borrowing (unsupported) subject to the requirements of the prudential code for capital expenditure. Capital (debt) costs are funded from the Council's revenue budget over the lifetime of the asset.

6.9 **Capital receipts** - the Council generates its own capital resources through the sale of surplus land and buildings. Councils have the option to use capital receipts to fund capital expenditure or they can set them aside to redeem debt incurred to fund capital expenditure in previous years. Statutory guidance on the flexible use of capital receipts also allows councils to fund qualifying revenue expenditure through in-year capital receipts. In the first instance, where the sale of an asset leads to the requirement to repay grant, that condition will be satisfied. From 2018/19 to 2021/22, the Council will use capital receipts to fund qualifying revenue expenditure and then will set aside capital receipts to redeem debt (equivalent to the value of the minimum revenue provision) rather than use to fund new capital investment. The Corporate Landlord team manages the disposal of land and buildings throughout the year.

6.10 **Funding Capital Investment** - once capital grants have been exhausted, the Chief Finance Officer will consider whether the remainder of the programme will be financed through capital receipts or prudential borrowing. As the capital receipts can be set aside and used for alternative purposes, the Chief Finance Officer may decide to use prudential borrowing to finance capital investment.

7. Corporate Implications

7.1 Financial Implications

This is a financial report and as such all financial implications are considered within the main report.

7.2 Legal Implications

7.2.1 This report, in conjunction with the separate Revenue Budget and Council Tax 2019/20 report, reflects the Council's statutory obligation to set a balanced budget. The report also meets the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place in line with Section 25 of the Local Government Act 2003. It is critical that the overall financial plans of the authority deliver the Council's aims and objectives, and the proposed Capital Investment Strategy, Capital Programme and Treasury Management reports achieve this. It is also vital that the various financial and treasury management regulations and codes of practice are complied with.

7.2.2 The Chief Finance Officer (as Section 151 Officer) is required to report to the Council at the time the Budget is considered and the Council Tax set, on the robustness of the budget estimates and the adequacy of financial reserves. These assurances are contained in section 16 of the Revenue Budget and Council Tax 2019/20 report included on this Council agenda.

7.2.3 The Treasury Management and Capital functions are governed by provisions set out under part 1 of the Local Government Act 2003. This legislation requires that the Council has regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, the DCLG Minimum Revenue Provision Guidance, DCLG Investment Guidance and the CIPFA Treasury Management in the Public Services Code of Practice.

7.2.4 Section 120 (1) of the Local Government Act 1972 authorises local authorities to acquire any land for their functions, and for the 'benefit, improvement or development of their area'

7.3 Equality Implications

The Council has a clear approach to recognising equality in all aspects of its work and recognises the lead role we have in the District to promote equality and diversity. This includes putting equality into practice, taking into account legislative requirements, the changing landscape in which we work and the current and future financial challenges that the District faces.

7.4 Information Governance Implications

None arising directly from this report

7.5 Property Implications

The Council manages an investment portfolio as part of its wider estate. The portfolio was designed to create income for the Council to assist in the delivery of essential council services. The makeup of the portfolio is now passed its best and has become a collection of legacy properties which have been acquired or inherited over the years. As such, the investment portfolio is in need of a refresh to ensure that it starts to fulfil its purpose once again and produce a better income for the Council. This can be facilitated both through the acquisition of better performing properties and investment in existing properties to increase the yield of the overall portfolio. The recommendation to enhance the scale and quality of the investment portfolio would therefore be welcomed and is critical to ensuring a stronger and more reliable revenue stream going forward.

8. Recommendations

That Cabinet recommend to Council to:

8.1 Approve the Capital and Investment Strategy 2019/20;

8.2 Approve the updated Capital Programme for 2019/20 to 2021/22;

8.3 Approve the Treasury Management Strategy 2019/20; and

8.4 Approve the Minimum Revenue Provision policy as included at Appendix 3, paragraph 2.3.

9. Reasons for Recommendations

9.1 To ensure that the Capital and Investment Strategy and Capital Programme effectively are fully aligned and support the Council's strategic objectives and priorities

9.2 To comply with the CIPFA revised 2017 Prudential and Treasury Management Codes to provide the framework for the effective management of the Council's treasury activities

9.3 To ensure good practice as recommended by the CIPFA Codes of Practice on the Prudential Code and Treasury Management which includes the requirement to receive and approve the treasury management and capital strategies.

9.4 To ensure that Cabinet and Council are provided with regular information on Treasury Management and Capital and Investment strategies to enable it to fulfil its role in monitoring policy, strategy and the actions of the Chief Finance Officer in managing cash flows, borrowing and investments.

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Appendices:

Appendix 1 – Capital and Investment Strategy 2019/20
Appendix 2 – Capital Programme 2018/19 to 2021/22
Appendix 3 – Treasury Management Strategy 2019/20

Background Papers:

Council 20th June 2018 – Financial Outturn 2017/18

Cabinet 8th October 2018 – 2019/20 – 2020/21 Medium Term Financial Plan

Chancellors Autumn Budget – November 2018

2019/20 Local Government Finance Settlement

CAPITAL AND INVESTMENT STRATEGY 2019/20

CONTENTS

1. INTRODUCTION

1.1 Purpose and aims of the Capital Strategy

The Capital Strategy outlines the Council's approach to capital investment, ensuring that it is in line with the Council's corporate priorities.

It is good practice that Capital Strategy and asset management plans are regularly reviewed and revised to meet the changing priorities and circumstances in Wakefield.

The Council's Capital Strategy is reviewed on an annual basis to reflect the changing needs and priorities of the Council including residents, businesses and places.

The aim of the Capital Strategy is to provide a framework within which the Council's capital investment plans will be prioritised and delivered. It has been prepared over three financial years in line with the Council's Medium Term Financial Plan and will be updated and rolled-forward each year.

The Capital Strategy is the foundation of proper long-term planning of capital investment and how it is to be delivered.

1.2 The key objective of the Capital Strategy

The Strategy's principal objective is to deliver an affordable programme that is consistent with the Council's priorities and objectives.

This Strategy is intended to be used by all stakeholders to show how the Council prioritises and makes decisions on capital investment and how this investment supports the Council's priorities and ambitions.

The key principles of the Capital Strategy are:

- To deliver an affordable capital programme over the full life cycle of all projects.
- To deliver a strategy/ capital programme that is consistent with the Council's medium-term financial strategy.
- To help to achieve the Council's objectives and that capital investment decisions are made with reference to Council priorities.
- That decisions on the financing of the capital programme are taken with consideration to the impact on the revenue budget, the treasury management strategy and the investment strategy.
- That capital projects follow a rigorous appraisal process considering evidence of need, cost, risks and outcome assessment.

- That in respect to the financing of the capital programme, the Chief Finance Officer will ensure that the Council will maximise the freedom and flexibility afforded by the removal of ring-fencing from most funding allocations to facilitate the achievement of the Council's objectives.

- That the Chief Finance Officer will consider and review the use of capital receipts, specific and non-specific funding and prudential borrowing to finance capital schemes to maximise the benefits to the Council and achieve the Council's objectives.

- Non ring-fenced capital funding and other non-specific capital resources that are not required to support existing commitments will initially be pooled. However, regard will be given and grants will be pass-ported in full to the transport agenda and social care funding arising from the Better Care Fund pooled arrangements.

- Capital receipts will not be ring-fenced to specific projects unless the use of the receipt is governed by legislation or by a specific agreement.

- To develop partnerships with third sector providers.

- To pursue all available external funding where there is direct compatibility with the Council's priorities.

1.3 The Council's corporate objectives and priorities

The capital budgets within the capital strategy support the key priorities of the Council.

Each capital proposal is required to demonstrate on its appraisal form clearly how the project links to the Council's overarching priorities and outcomes.

Successful businesses
Growing a higher value economy and creating jobs

Successful people
Reducing inequalities, growing skill levels, enabling a good quality of life and supporting families

Successful places
Celebrating a unique cultural offer and creating vibrant communities that are better connected

Successful council
Ambitious, enterprising, dedicated and efficient in delivering excellent services

The Council's vision for the Wakefield District is that people thrive, businesses succeed and visitors are welcome.

The way the Council goes about delivering these priorities is equally important, and 'The Wakefield Way' is a reflection of the principles that underpin how the Council works.

'The Wakefield Way' guides how the Council provides services, the decision-making and influence how the Council improves services.

The Council has developed a set of key principles that underpin how we work. These are that we:

- Help people help themselves
- Are business-minded and socially responsible
- Provide a positive customer experience
- Tackle poverty
- Keep people safe at times of vulnerability
- Are forward thinking
- Intervene early
- Have real impact
- Champion good growth

2. APPROACH TO INVESTMENT PRIORITISATION

2.1 The capital programme

The capital programme is a set of capital projects that the Council plans to undertake within a given timeframe. The existing capital programme covering the period 2018/19 to 2020/21 was agreed as part of the budget setting process at Council on 28th February 2018 and updated by July's Cabinet in order to reconcile to the final outturn position for the year.

This current capital programme has been updated as part of the 2019/20 budget setting process and was agreed at Council on 27th February 2019. The revised capital programme going forward covers the years 2019/20 to 2021/22.

The Council's capital programme is made up of;

- The rolling programme – this includes the ongoing investment that is needed to continue existing services, for example, the replacement and upgrading of ICT equipment and systems; corporate landlord projects to ensure existing assets are maintained to appropriate standards; and schemes that are an ongoing requirement and funded by grant, for example the Disabled Facilities Grant.

- Directorate/Service 'proposals' - this includes new capital investment proposals to support Council priorities.

- Capital projects and investments that are funded from specific and/or ring-fenced grants.

- Investment to maintain and enhance the scale and quality of the Property and Asset Investment Portfolio.

All capital projects not funded by ring-fenced grants are required to follow the procedure set out in the Council's Financial Procedure Rules and supporting guidance in order to be included in the Council's capital programme.

All new investment proposals are prioritised by the service area by going through an appraisal process and establishing links to service business and asset management plans and corporate priorities.

The table below identifies the Council's capital programme for 2019/20 through to 2021/22. The programme has continued to be reviewed on a regular basis to identify slippage, re-phasing of capital projects and updates of the estimated costs of approved projects. Capital resources forecasts have also been reviewed and updated.

Table 1 – Capital Programme expenditure

Programme Expenditure	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Total £000
Adults, Health and Communities	5,292	8,589	4,474	4,224	22,579
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Total Expenditure	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

The capital programme contains over £292m of capital investment in the Wakefield District which supports the Council's key objectives and priorities. This level of investment is likely to increase as the Council continues to pursue its approach to securing additional funds through capital grant opportunities.

The Council will continue to maximise the use of capital resources to deliver regeneration ambitions and continue to maintain the strategic housing focus on securing the delivery of new homes and affordable housing.

The principal aim of the resourcing strategy is to meet the capital financing requirements of the programme in the most financially viable way. The strategy takes into account the Council's policy on the Minimum Revenue Provision included within the Treasury Management Strategy.

2.2 Identification and prioritisation of capital investment needs

The basis of the Capital Programme and its evaluation criteria – for evaluating and prioritising projects - is driven by the Council's priorities, ambitions and service planning process.

The capital budgets within the Capital Strategy support the key priorities of the Council (see 1.3 above)

The size of the Capital Programme is determined by:

- The need to incur capital expenditure;
- Capital resources available; and
- The revenue implications flowing from the capital expenditure

As part of the budget planning process, services submit capital proposals (a 'Concept Outline') to be considered by Members for investment decisions.

These are coordinated through Financial Services. This covers the initial concept idea, potential costs and funding sources, links to the Council's strategy and how outcomes are improved. This allows early consideration of whether the project should be progressed and the impact it would have on the existing Capital Strategy.

Approval is required for all capital projects to be included into the Capital Programme.

2.3 Injections to the Capital Programme

Injections into the capital programme are required when new funding streams are available which have not previously been formally included in the capital programme. They can be made as a result of notification of grant or the approval of a new scheme or project. An injection is only an intent to deliver capital investment and additional approval to start the project may be required.

Any capital injection greater than £250k is usually defined as a 'key decision' and therefore must be approved in line with the Constitution and the decision-making processes.

The allocation of external funding streams

Non ring-fenced grant funding can be injected as a scheme to the capital programme as and when the Council receives notification from the funder. At this stage no specific scheme may have been identified and there is no requirement to direct the funding to a particular area. Further project approval is required once a project has been identified and scoped.

Ring-fenced grants are those that must be spent for the original purpose for which it was allocated and are usually awarded after a rigorous bidding process to the grant funder.

Fully externally funded schemes are injected to the capital programme as and when the Council receives notification from the funder.

Rolling Programme Internally funded schemes

There are a number of annual capital schemes within the capital programme. These include authority wide and corporate schemes such as ICT hardware refresh, vehicle replacement and corporate property schemes. These projects are included in the annual Council budget submitted to Council for approval prior to the start of the financial year. Any amendments during the financial year are approved as part of Council's decision making processes.

New One – off schemes / Project Approval

The Capital Programme Governance and Prioritisation process is being developed to ensure that the funding of all of these new projects into the capital projects is prioritised in a way that best meets the Council's objectives. Furthermore, this must be achieved within the confines of the capital resources available.

The Major Capital Projects Baord has been introduced to ensure that the schemes (with an estimated cost of £250k or greater) that best fit the Council's priorities within the funds available are progressed.

Throughout the year, services develop will outline business cases, and subsequently final business cases, for their proposed projects for the Board to review, prioritise and approve.

Proposed projects are reviewed to ensure that they:

- Meet the Council priorities;
- Consider the full capital costs and ongoing revenue implications;
- Identifies possible external funding or capital receipts; and
- Identifies realistic and achievable outcomes.

For all projects agreed by the Board, the service will prepare a report for approval by the Council.

For proposed schemes less than £250k, a business case with revenue and financial implications must be prepared and an officer delegated decision can be taken in consultation with the S151 officer or their appropriate substitute:

- Schemes up to £250k – by the Corporate Director
- Schemes up to £150k – by the Service Director
- Schemes up to £75k – by the relevant Service Manager

Project start approval

All schemes approved in line with the process have implied 'project start approval' providing the project commences within 12 months of the approval date. If more than 12 months has passed since the approval date, 'project start approval' is required to ensure that the project is still relevant, appropriate and within the approved budget.

Reporting

An update on the Capital Programme's financial performance is reported to Cabinet on a quarterly basis as part of the monthly Financial Health report.

Benefits Realisation

A revised process for managing Benefits Realisation will be implemented from April 2019.

The process will follow five steps:

- Identification of all potential benefits and dis-benefits (financial and non-financial) that projects could realise and quantification of the level of benefits that could realistically be realised;

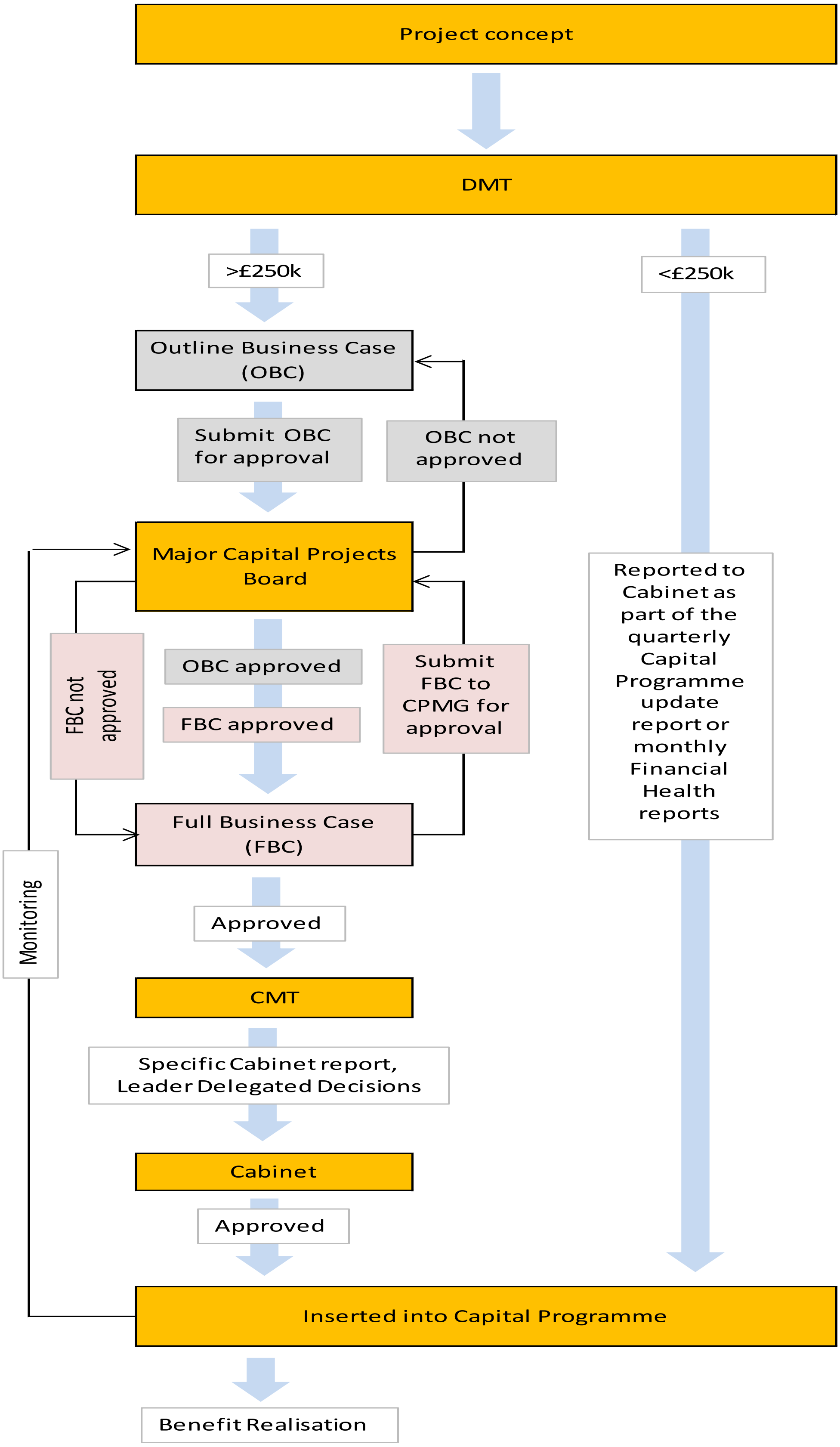
- Plans to put in place the appropriate mechanisms so that there is a clear understanding of the roles, responsibilities, timescales and governance arrangements required for realising and reviewing benefits;

- Modelling of the benefits using "Benefit Maps";

- Delivering the benefits by tracking and reporting on progress; and

- Reviewing benefit management activity to:
    - Reviewing planned benefits compared to actual benefits delivered;
    - Assessing the benefits management process and if it was successful; and
    - Feeding back to relevant teams on lessons learned and the accuracy of the assumptions

Capital Programme Governance and Prioritisation



2.4 Funding the capital programme

The Council's capital programme is prepared in the context of the overall resources available. Only those schemes supported by a robust business case and which support the Council's objectives and priorities will progress.

Table 2 – Capital Programme funding

Programme Funding	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Total £000
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- Ring fenced – the Council also receives funding from Government which is ring-fenced to particular services and therefore has restricted use. For example, Targeted Basic Need grant is only to be used to fund school expansions.

Non-government contributions – some capital projects are financed wholly or in part through external grants and contributions that are specific to projects and cannot be used for other purposes. These are a valuable source of capital finance and have enabled the Council to deliver a substantial number of capital developments that would otherwise have been unable to progress. In the last few years, the Wakefield Eastern Relief Road and the Northern Link Road have been completed, funded by the West Yorkshire Combined Authority (WYCA). The current capital programme includes schemes within the District such as the Kirkgate development and the Civic Quarter, which are funded, wholly or partly, by the WYCA.

Section 106 agreements – section 106 of the Town and Country Planning Act 1990 allows the Council to seek to secure benefits to an area or restrict uses or activities related to a proposed development when considering a planning application. In order to improve the quality of the proposed development and therefore obtain planning permission, the Council may require the developer to fund particular works. The provision of the funding is generally contingent on a certain stage in a development being met. Once the contributions are received, there is usually a time limit within which they must be spent.

Community Infrastructure Levy (CIL) - the CIL is governed by the Community Infrastructure Levy (Amendment) Regulations 2013. It is a levy that councils in England and Wales can choose to charge to developers and landowners when developments commence. A percentage of the charge resulting from a new development must be spent on community infrastructure in the neighbourhoods affected by development, in consultation with those communities. Whilst similar to the Section 106 monies, it does not replace it. The charges apply to new residential developments, retail warehouses and large supermarkets. The charges are based on viability evidence and are set at a rate that is affordable, without impacting on the delivery of development.

VAT shelter – as part of the Housing Stock transfer that took place in 2004 a Value Added Tax ('VAT') shelter agreement was entered into with Wakefield District Homes ('WDH'). This allows WDH to obtain the same VAT exemption on its capital works as the Council. This saving is shared between the Council and WDH. The shelter only applies to first-time improvements and is due to end in 2022/23.

Prudential Borrowing - the Council can use this type of borrowing (unsupported) subject to the requirements of the prudential code for capital expenditure. Capital (debt) costs are funded from the Council's revenue budget over the lifetime of the new asset.

Capital receipts - the Council generates its own capital resources through the sale of surplus land and buildings. Councils have the option to use capital receipts to fund capital expenditure or they can set them aside to redeem debt incurred to fund capital expenditure in previous years. Statutory guidance on the flexible use of capital receipts also allows councils to fund qualifying revenue expenditure through in-year disposals. In the first instance, where the sale of an asset leads to the requirement to repay grant, that condition will be satisfied. From 2018/19 to 2020/21, the Council will use capital receipts to fund qualifying revenue expenditure and then will set aside capital receipts to redeem debt (equivalent to the value of the minimum revenue provision) rather than use to fund new capital investment.

2.5 Supporting West Yorkshire Combined Authority

The West Yorkshire Combined Authority (WYCA) has secured over £400m in funding from central government to invest in the delivery of better transport and housing, regenerate the Leeds city region and protect the environment. WYCA brings together local councils and businesses to achieve a vision of a strong and successful economy, so that everyone in the region can benefit from economic prosperity and a modern, accessible transport network.

WYCA has supported the Council to complete a number of regeneration/highways schemes across the Wakefield district.

WYCA has established an assurance framework which provides a clear pathway for councils to develop proposals, including the relevant information to make investment decisions and prioritise between different proposals in a clear and transparent manner.

The Council has completed a number of schemes supported by WYCA funding. Castleford Growth Corridor is the latest scheme which is due to be completed by March 2021.

2.6 Post project review

Arrangements are in place to carry out individual post project appraisals and to learn from any mistakes identified. A revised process for evaluating benefits realisation will be implemented from April 2019 – see paragraph 2.3 above.

3. TREASURY MANAGEMENT STRATEGY

The Council's Treasury Management Strategy is intrinsically linked with the Capital Strategy and the Capital Programme.

It manages the Council's investments and cash flows, banking and money market and capital market transactions.

The Treasury Management Budget supports the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. When it is prudent and economic, any debt previously incurred may be restructured to meet the Council's risk or cost objectives.

In line with the Council's Constitution, Council is required to receive and approve, as a minimum, three main reports each year;

- Before the start of the financial year, a Treasury Management budget report which includes the updated Capital Programme; the Minimum Revenue Provision policy statement; how investments and borrowings are to be organised (including prudential indicators); and an investment strategy.

- A mid-year Treasury Management assurance report to update Council with the progress of the capital position; adherence to the Treasury Management Strategy and whether any policies require revision.

- At the end of the financial year, a Treasury Management Outturn report to provide details of actual indicators compared to the estimates within the strategy

Further details can be found within the Council's Treasury Management Strategy.

4. MONITORING OF THE CAPITAL PROGRAMME DELIVERY

The Council maintains comprehensive procedures for managing and monitoring the capital programme.

The Capital Finance team within Financial Services provides strategic financial support, advice and guidance on capital finance, accounting, approvals and resources. Project managers are provided monitoring information from the capital finance team on a monthly basis and regular meetings between the two parties are held to discuss issues such as forecasts, variations, performance and risk.

The team has responsibility for ensuring the integrity of the Council's capital accounts and that financial systems and procedures are maintained and controlled. It also takes a lead role in the development and ongoing review of systems and procedures for the management of capital expenditure within the Council.

Corporate Directors are responsible for the monitoring and control of individual capital projects, and for ensuring that projects are managed in accordance with Financial Procedure Rules ('FPR') and Contract Procedure Rules ('CPR').

To support Corporate Directors carry out their responsibilities, the Capital Finance team:

- Provides advice and guidance on all capital issues;
- Maintains the capital accounting and programme meet with budget holders to discuss monitoring of projects where spend, variances and projections will be challenged and agreed for reporting; and
- Reviews and submit all capital grant bids and return

Capital budget monitoring is reported to Cabinet on a quarterly basis. This report includes:

- an update of existing projects
- expenditure to date
- capital receipts forecast
- slippage and acceleration of projects
- new injections to the capital programme for approval
- how the programme is to be financed

A key role in the monitoring of the capital programme is undertaken by the Major Capital Projects Board. The Board is made up of corporate and service directors across the Council as well as the section 151 officer. Major projects from across the Council are reviewed by the Board at bi-monthly meetings.

5. THE STRATEGIC AND CORPORATE ASSET MANAGEMENT PLAN

5.1 Overview

At its meeting in December 2018, Cabinet received an update report on the Strategic and Corporate Asset Management Plan ('SCAMP').

The SCAMP provides the framework that will guide the Council's future strategic property decisions, enabling the management of operational land and property assets as well as management of the Council's portfolio of investment properties.

In summary, the SCAMP:

- guides the Council's future strategic property decisions aligned to the Council's objectives and priorities;
- improves the effectiveness and efficiency of the Council's operational property assets;
- drives additional and sustainable revenue from the Council's property portfolio; and
- helps to identify opportunities for the Council to use its property assets to stimulate regeneration and economic growth across Wakefield and to protect the environment

There are clear benefits to the Council from holding a property and asset investment portfolio. In the medium and long-term it provides the opportunity to build on the Council's role as a major regeneration body both within Wakefield and wider region, and enables the Council to influence the shape and direction of the local economy to deliver for the residents of the Wakefield. The portfolio also delivers a net revenue yield that supports critical Council services.

5.2 Strategic acquisitions, commercial investment opportunities

As reliance on Government funding reduces, the importance of local income generation increases as a result. The Council is becoming a more commercial organisation in order to continue to achieve a balanced budget. A commercial mind set is being developed across services and officers strive to achieve the best use of available resources to deliver improved outcomes for residents.

This commercial approach will lead to more commercial activities and means that processes and financial controls, regarding material and significant capital investment, need to be robust. Due diligence and ongoing budget management is effective and proportional to the level of investment and risk.

Through the SCAMP, the Council will undertake to improve the scale and quality of the investment portfolio including strategic acquisition of property and assets where there is a strong financial case to do so. Such acquisitions will help to deliver multiple objectives, both in terms of regeneration and economic growth and diversification of the portfolio, but will also to help and support the Council's revenue budget.

As part of this process the Council will also rebalance its existing estate by selling legacy investment assets that have little financial, economic or social value to the activities of the Council.

When considering any acquisition, consideration will be given across a range of issues and risks such as the location of the investment; the type of property; the security and strength of covenant and yield; the potential for appreciation and capital growth; as well as fit and risk diversification within the existing portfolio.

The Council will use prudential borrowing to fund these strategic acquisitions. Currently, interest rates remain at a low level and the rental income from the strategic acquisitions should more than cover the associated debt costs, whilst also providing a substantial net yield to support the Council's revenue budget. The Council has the ability to fix interest payments over the long-term which will remove the risk of any interest rate volatility.

Each strategic acquisition will be subject to a robust business case process with due diligence, and will be judged against a set of overarching investment objectives, namely:

- To support the place-shaping ambitions of the Council: to use the Council's investment portfolio to help to drive regeneration, economic growth and diversification of the local economy and intervene where there are poor economic conditions.

- To generate additional social value through better outcomes: linked to place shaping, there is a need to improve key social indicators in the District, for example, levels of poverty, educational attainment, employment / skills, reduced crime, health outcomes etc.

- To generate more income: to drive additional value and create sustainable net revenue to underpin the quality of public services provided to residents, businesses and those visiting the District.

- To achieve returns based on an acceptable level of risk: the Council will take a cautious view in terms of risk appetite and any required return has to be commensurate to the risk. The Council is prepared to consider lower financial returns for investments with strong financial benefits, for example, wider regeneration outcomes such as jobs /prosperity, healthier communities etc. However, all new investments must meet a base financial test and demonstrate that they are expected to be net revenue contributors.

The following principles govern the way the Council invests in assets within the investment portfolio:

- All new acquisitions within investment portfolio must be expected to make a direct financial return – this will enable the gross yield from the investment to cover the debt costs and generate a surplus to cover overheads and risk.

- The level of financial return expected should be considered against market norms for similar projects – where projects have a strong indirect financial case and/or a strong economic case – a reduced financial return may be considered – noting that all projects should still be expected to contribute a net direct financial return.

- It is anticipated that the prime focus for investment projects will be within the Wakefield area - or within the wider region where the investment might benefit the residents or businesses located in the District and diversify the portfolio and reduce overall portfolio risk.

- Maintaining a balanced portfolio in order to diversify risk – the Council will seek to balance its risk exposure across its portfolio in terms of types of property/asset, location, lease lengths, etc.

- Individual opportunities are to be rigorously assessed in advance of any investment – this will include due diligence, impact on Council revenues and balance sheet, risk assessments and potential financial impacts, portfolio risk, ownership and exit strategies.

There may be a need for the Council to be able to respond quickly as an investment opportunity arises and clear and agile governance structures and processes have therefore been put in place. These are supported by detailed processes and procedures including detailed appraisals of each potential acquisition.

Provision of £50m has been included in the capital programme, phased across the life of the programme and funded by prudential borrowing. This provision will be drawn down as required.

Cabinet has agreed that processes and procedures are in place to ensure sensible governance and risk management processes are in place to consider new investment proposals. The Investment Advisory Group is the key body within this wider governance structure. The Investment Advisory Group's primary duty is to advise the Portfolio Holder and s.151 officer on which investment assets to acquire on behalf of the Council.

The Group's membership includes

- The Corporate Director of Regeneration and Economic Growth (Chair);
- Service Director Environment and Property;
- Corporate Director for Business Change (Corporate Services);
- Service Director for Corporate Landlord;

- Legal Representative;
- Service Manager for Financial Management; and
- Corporate Property and Estates Manager.

Business cases are prepared for each potential acquisition and presented to the Group. A standard investment matrix has been agreed to score individual assets, with the agreed levels of delegation for sign-off, see below. A gateway approach will be used to sign-off all investment decisions in line with the financial delegations.

Investment Portfolio Delegations

Value of Asset *Matrix score*	Investment matrix RAG rating Green *80 plus points*	Investment matrix RAG rating Amber *41-75 points*	Investment matrix RAG rating Red *Less than 40 points*
Up to £10m	Portfolio holder (or delegated authority) and s151 Officer	Portfolio holder (or delegated authority) and s151 Officer	Do not proceed
Up to £15m	Leader of the Council and s151 Officer	Leader of the Council and s151 Officer	Do not proceed
£15m and above	Leader of the Council and s151 Officer	Leader of the Council and s151 Officer	Do not proceed

5.3 The Portfolio

- Operational Land and Buildings

The Council carries out a rolling programme of valuations that ensures that all land and buildings are measured at their carrying or fair value and are revalued at least every five years. All valuations are carried out by the Council's partner Arcadis, and Sanderson Weatherall. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The net book value of all operational land and buildings as at 31st March 2018 is £359.8m (£349.8m as at 31st March 2017)

The Council has commissioned its property partner, Engie, to carry out a condition survey of the property portfolio. For this purpose, all corporate buildings are surveyed every four years and schools every three years. This survey helps to formulate a five year forward maintenance plan for the corporate buildings and four years for schools. The Corporate Landlord Team will use the results of the condition surveys to establish both revenue and capital budgets over the short to medium term. The condition survey also considers other significant surveys, such as asbestos, fire and electrical to ensure full condition is understood within each summary.

A planned preventative maintenance plan is being developed to make sure that all property, plant and equipment are regularly serviced, maintained, statutory inspected and tested in accordance with legislation. The plan ensures that all Council buildings remain compliant with Health and Safety Legislation and Best Practice. These works will be built into the Council's capital programme.

- Investment Property

Investment properties are defined as property that is used solely to earn rentals or is held for capital appreciation or both. Investment properties are valued at market value.

The fair value of assets held for investment purposes as at 31st March 2018 was £44.8m

Further opportunities for the strategic acquisition of property and assets and commercial investment opportunities will be explored, where there is a strong financial case to do so, as covered in 5.2 above.

- Heritage assets, buildings and other structures

The Council has identified Sandal and Pontefract Castles, various war memorials and the Buttercross monument in Pontefract as heritage assets. The Council has to abide by historic England's policies around the maintenance of scheduled ancient monuments. County Hall and Wakefield Town Hall are significant historic Grade 1 listed buildings but are classified as operational buildings as they provide office accommodation for employees.

5.4 Other non-financial investments

The Council has two major investments to support the regeneration of the District and West Yorkshire.

The Council has an investment of £3m (a 50% interest) in Bridge Homes. This is a joint venture with Wakefield District Housing whose main activity is to build and sell homes. It was established in July 2014 to support the drive towards building new affordable homes for sale. Two sites are currently being developed by Bridge Homes with 139 units of which 40 are affordable homes. The planning application for a third site was submitted in October 2018. This model has the potential to be developed to deliver houses for sale and rent with other local authorities and developers.

The Council has also a long-term investment in the Leeds City Region Revolving Investment Fund (LCR RIF). It was established in 2013 with the local authorities of Leeds, Bradford, Kirklees, York, Harrogate and Calderdale, Wakefield who have jointly committed in excess of

£20 million loan funding for commercially viable, private sector led infrastructure and construction projects in the Leeds City Region. The Council has so far contributed £1.8m to the fund. Projects eligible for support include new homes, delivering new energy infrastructure, new factories and commercial buildings, where conventional sources of funding are insufficient and/or unavailable. Loans are made on commercial terms and compliant with State Aid restrictions to meet the gaps where private finance cannot be obtained.

6 LINKS TO THE MEDIUM TERM FINANCIAL PLAN

Capital expenditure has a direct impact on the revenue budget; the funding of the capital programme therefore needs to be linked with the medium-term financial plan.

The Council's capital financing costs are determined by the capital programme. The Council aims to meet the capital financing requirement of the capital programme in the most financially beneficial way by capitalising on the opportunities presented by low interest rates to undertake long-term borrowing.

The revenue cost and affordability of the capital programme is considered as part of the Council's Treasury Management Strategy (see Section 3 above).

The revenue costs arising from additional borrowing, in terms of both interest and Minimum Revenue Provision, are factored into the medium term financial plan.

Further details can be found within the Council's updated Medium Term Financial Plan and annual budget reports.

The Chief Financial Officer has delegated authority to determine how to fund the capital programme.

7 KEY RISKS AND SENSITIVITIES

The range of risks that may impact on this Capital Strategy must be understood, managed and communicated so that measures can be put in place to prevent them happening or reduce the effect.

Risk management arrangements are in place throughout the organisation. Audit Committee reviews and challenges the strategic key risk periodically and assesses the control mechanisms in place to manage such risks.

Failure to manage and prioritise the Council's financial resources effectively is one of these key risks as is the failure to take full advantage of economic growth opportunities as national / regional economies grow. These financial risks can be broken down into a number of key areas;

- Implications of global economic conditions on future local government funding
- Shortfall in resources from reduced asset sales & values
- Lack of a clear financial strategy based on priority outcome
- Ineffective financial planning
- Failure to maximise use of resources to support priorities
- Not managing spending within available resources
- Failure of internal controls
- Ineffective management reporting arrangements
- Institutions defaulting on the Council's investments
- Not delivering cost effective & efficient services
- Future levels of interest rates and the extent to which cash balances will determine the need to borrow
- The impact of demographic changes in terms of increasing demand for Council services

8. KNOWLEDGE AND SKILLS

The Council has a wide range of expertise to call upon, including professionally qualified legal, finance and property officers, to support the delivery of the Capital Strategy.

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Finance Officer or s.151 Officer) has responsibility for the administration of those affairs; and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

There is some commercial expertise across the Corporate Management Team and a commercial approach is being embedded across the organisation. The 'Wakefield Way' includes an approach to being business-minded and socially responsible.

The Capital Programme and Treasury Management Strategy is managed by a team of qualified accountants who follow a programme of continuous professional development, attending tailored courses offered by the Chartered Institute of Public Finance Accountants and others and the Council's retained treasury consultants.

As part of the Treasury Management Strategy it is a requirement that all members involved in treasury management understand this complex area. Annual training is open to all members and is delivered by external treasury consultants. A record is maintained of member attendance.

External advice, on a financial and legal perspective, is sought on specific areas where necessary.

Appendix 2

Financial Years 2018/19 to 2021/22

Project	Project Description	Programme 2018/19 £000	Programme 2019/20 £000	Programme 2020/21 £000	Programme 2021/22 £000	Total Programme £000
Service : Adults, Health and Communities						
1252	Better Care Fund	2,660	4,223	4,224	4,224	15,331
907	Adult Services Vehicles	205	-	-	-	205
9220	Local Area Infastructure	1,141	1,850	250	-	
9221	Integrated Care	366	500	-	-	
9222	Wheelchairs & ICES System	201	73	-	-	
9223	Digital Enablers	-	75	-	-	
9224	Digital Shared Platform	-	102	-	-	102
9298	Adults Services	676	1,416	-	-	2,092
961	Homeless Accommodation	43	350	-	-	393
Sub Total Adults, Health and Communities		**5,292**	**8,589**	**4,474**	**4,224**	**22,579**
Service : Corporate Services						
275	Hardware Upgrade Programme	922	874	380	-	2,176
278	ICT Assets	8	-	-	-	
279	Digital Strategy	133	5,306	3,124	2,370	10,933
280	Caredirector Replacement	809	607	604	-	2,020
281	New Payroll System	50	450	-	-	500
Sub Total Corporate Services		**1,922**	**7,237**	**4,108**	**2,370**	**15,637**
Service : Children and Young People						
453	Legacy IT Systems	4	62	-	-	66
461	30 Hours Childcare Early Years Capital Fund	179	-	-	-	179
9250	Foster Carer Home Adaptations	39	-	-	-	39
9260	Residential Placement Provision	241	600	500	-	1,341
950	C&YP Information Technology	124	-	-	-	124
Sub Total Children and Young People		**587**	**662**	**500**	**-**	**1,749**
Service : Council Wide Budgets						
1014	West Yorkshire Archives Facility	8	-	-	-	8
238	E Government	83	40	-	-	123
570	Highways Vehicle Purchase	311	-	-	-	311
599	Street Scene Vehicles and Equipment	232	-	-	-	232
623	Enforcement Vehicles	103	-	-	-	103
8001	Replacement of Vehicles & Equipment	2,570	6,268	6,038	1,068	15,944
8006	Service Transformation	2,000	2,000	2,000	-	6,000
Sub Total Council Wide Budgets		**5,307**	**8,308**	**8,038**	**1,068**	**22,721**
Service : Regeneration and Economic Growth						
1024	Castleford Project	-	41	-	-	41
1030	Waterfront Project	-	142	-	-	142
1045	Regeneration Developments	50	725	-	-	775
1048	Knottingley & Castleford Regeneration	-	612	375	-	987
1058	Affordable Housing	-	425	425	425	1,275
1066	Pontefract Townscape Heritage	564	183	-	-	747
1072	South East Area Projects	66	-	-	-	66
1073	Wakefield Civic Quarter	46	-	-	-	46
1076	Wakefield Waterfront	-	3,700	6,500	-	10,200
1077	Castleford Housing Zone	200	-	-	-	200
1078	Wakefield City Centre Christmas Lights	246	-	-	-	246
1248	Housing Market Renewal (RGF)	17	-	-	-	17
1269	Fuel Poverty Adaptations	1,162	-	-	-	1,162
1280	Housing Regeneration	96	215	10	-	321
1283	Five Towns	5	-	-	-	5
1292	Regional Mortgage Rescue Scheme	250	397	121	-	768
1293	Housing Land Transactions	18	-	-	-	18
1296	LCR Revolving Investment Fund	-	350	377	-	727
1297	Housing Joint Venture LLP	250	500	-	-	750
1300	City & Town Centre Promotions	85	-	-	-	85
1301	Knottingley Shop Front Grants	84	-	-	-	84
1302	People Enabling Area Transformation (PEAT)	-	30	60	30	120
1303	Retail & Residential Fund	10	45	-	-	55
1400	Community Infrastructure Levy Payments	30	-	-	-	30
2404	Wakefield Market	-	300	-	-	300
252	Sport Vehicles & Equipment	36	-	-	-	36
2902	Investment Properties	7,900	22,100	20,000	-	50,000
2903	Land Transactions	60	-	-	-	60
2951	Corporate Landlord Boilers	64	-	-	-	64
2952	Corporate Landlord Roofing Works	74	-	-	-	74
2953	Corporate Landlord Electrical Works	44	-	-	-	44

Project	Project Description	Programme 2018/19 £000	Programme 2019/20 £000	Programme 2020/21 £000	Programme 2021/22 £000	Total Programme £000
2954	Corporate Landlord General Works	553	308	-	-	861
2955	Resevoir Works	105	95	-	-	200
2956	Corporate Landlord Parks	81	461	-	-	542
2977	Retained Operational Buildings	386	524	750	750	2,410
2983	Dilapidations	6	-	-	-	6
2990	Crown Court	1,499	-	-	-	1,499
2991	Chantry House	3,770	-	-	-	3,770
3182	Ossett Town Hall	500	-	-	-	500
3341	Culture Growth Investment Fund	-	1,000	-	-	1,000
3345	Sandal Castle	584	150	-	-	734
3346	Pontefract Castle	998	235	-	-	1,233
5115	Transport Depot, Patrick Green (new)	63	-	3,937	-	4,000
5204	Sports & Leisure Development	13	-	-	-	13
5212	Normanton Swimming Pool	10	-	-	-	10
5230	Knottingley Sports Centre	183	-	-	-	183
5236	South East Swimming Pool	38	-	-	-	38
5237	Five Towns Leisure Investment	1,172	13,204	6,200	-	20,576
5281	Sports & Health Improvement Infrastructure Fund	-	150	-	-	150
5420	Green Park, Horbury	-	18	-	-	18
5425	Parks Improvement Theme	350	744	665	-	1,759
5430	Parks For People	-	100	100	100	300
5471	Restoration of Contaminated Land	73	250	275	-	598
5985	Land Drainage	461	466	170	-	1,097
611	Civil Parking Enforcement	-	40	-	-	40
6309	Major Infrastructure Projects	8,230	7,830	7,690	5,399	29,149
6310	Pontefract Knottingley Connect	394	880	-	-	1,274
6311	Waterfront Car Park, Wakefield	786	214	-	-	1,000
6312	Electric Vehicle Rapid Charging Network	389	-	-	-	389
6350	Brownfield Sites	100	50	50	-	200
6850	Network Management UTC	347	-	-	-	347
6851	Safer Roads KSI Reduction	422	-	-	-	422
6852	Local Traffic Management	520	49	-	-	569
6853	Integrated Public Transport	2	-	-	-	2
6856	Motorcycle Stands	34	-	-	-	34
6857	Cycling and Walking Feasibility	40	45	-	-	85
6858	Places to Live and Work	276	-	-	-	276
6859	NPIF Schemes - Integrated Transport	101	-	-	-	101
6900	Bridges & Structures	630	1,154	665	-	2,449
6923	Traffic Management & Traffic Calming	-	1,000	1,000	1,000	3,000
6946	S278 External Works	173	-	-	-	173
6971	Active Modes	4	-	-	-	4
6974	Bus Priority	184	60	-	-	244
6979	Local Integrated Transport	9	-	-	-	9
6980	Carriageway Principal Roads	3,469	2,952	3,441	3,441	13,303
6982	Carriageway Unclassified Roads	2,654	-	-	-	2,654
6984	Footways Kerbs & Footways 3 & 4	480	-	-	-	480
6986	Highways Structural Maintenance	602	3,550	3,000	3,000	10,152
Sub Total Regeneration and Economic Growth		**42,048**	**65,294**	**55,811**	**14,145**	**177,298**
Service : Schools						
3002	Howard CE (VC) J & I School	57	-	-	-	57
3004	Oakfield Park School	35	-	-	-	35
3009	Alverthorpe St Pauls J & I School	7	-	-	-	7
3010	Ash Grove J & I School (South Elmsall)	10	-	-	-	10
3011	Badsworth CE (VC) J & I School	25	-	-	-	25
3014	Carlton J & I School	36	-	-	-	36
3019	Dane Royd J & I School	36	-	-	-	36
3020	Crigglestone Nursery	11	-	-	-	11
3024	Crofton Junior School	7	-	-	-	7
3025	Shay Lane J & I School	18	-	-	-	18
3027	Dimplewell Infant School & Nursery	8	-	-	-	8
3030	Purston Infants School	13	-	-	-	13
3031	High Well School	11	-	-	-	11
3036	Flushdyke J & I School (Ossett)	15	-	-	-	15
3041	Greenhill J & I School	22	-	-	-	22
3042	Grove Lea J & I School	27	-	-	-	27
3044	Harewood Centre Nursery School	19	-	-	-	19
3049	Hendal Primary J & I School	29	-	-	-	29
3050	Smawthorne Henry Moore Primary School	10	-	-	-	10
3051	Holy Trinity CE J&I School	65	-	-	-	65
3056	Horbury St Peters & Clifton CE VC Primary	13	-	-	-	13
3057	Kettlethorpe High School	29	-	-	-	29
3058	Kingsland Special School	252	-	-	-	252
3063	Lawefield Lane Primary School	90	-	-	-	90

Project	Project Description	Programme 2018/19 £000	Programme 2019/20 £000	Programme 2020/21 £000	Programme 2021/22 £000	Total Programme £000
3065	Mackie Hill J & I School	23	-	-	-	23
3066	Martin Frobisher Infant School	16	-	-	-	16
3067	Methodist J & I School	15	-	-	-	15
3070	Moorthorpe Primary School	25	-	-	-	25
3071	Altofts Junior School	14	-	-	-	14
3072	Normanton All Saints CE VA	40	-	-	-	40
3074	Newlands Primary School	21	-	-	-	21
3076	North Featherstone J & I School	15	-	-	-	15
3086	Pinders Primary J & I School	31	-	-	-	31
3092	Ryhill J & I School	10	-	-	-	10
3093	Sandal Castle (VA) Community Primary School	18	-	-	-	18
3097	Netherton J & I School	17	-	-	-	17
3100	Snapethorpe Primary School	53	-	-	-	53
3101	Southdale CE Junior School	14	-	-	-	14
3102	South Hiendley J & I School	8	-	-	-	8
3103	Northfield J & I School	15	-	-	-	15
3110	St Johns CE (VA) J&I School	28	-	-	-	28
3111	St Marys CE (VA) Primary (J&I) School	2	-	-	-	2
3112	Stanley St Peters CE (VC) J & I Nursery School	17	-	-	-	17
3114	St.Thomas VC Junior School	14	-	-	-	14
3117	Stanley Grove Primary J & I School	13	-	-	-	13
3119	Newton Hill J & I School	20	-	-	-	20
3122	South Kirkby Common Road Infants School	11	-	-	-	11
3123	Streethouse J & I School	8	-	-	-	8
3125	Highfield School	33	-	-	-	33
3126	The Mount J & I School	11	-	-	-	11
3130	Townville Infants School	6	-	-	-	6
3131	Upton Primary School	45	-	-	-	45
3134	Flanshaw J & I School	167	-	-	-	167
3139	West Bretton J & I School	15	-	-	-	15
3141	Wheldon Infants School	12	-	-	-	12
3145	Pinderfields and Pontefract Hospital School	18	-	-	-	18
3146	South Parade Primary School	20	-	-	-	20
3150	Castle Childrens Nursery School	11	-	-	-	11
3151	Priory Centre PRU	10	-	-	-	10
3152	Springfield Centre PRU	31	-	-	-	31
3162	Fairburn View Primary School	18	-	-	-	18
3405	School Capital Maintenance Priorities	300	2,480	2,484	2,080	7,344
3496	Devolved Formula Capital	771	400	400	400	1,971
3504	Primary Capital Programme	1,689	1,757	8,372	7,554	19,372
4015	Schools General	-	2,058	2,285	-	4,343
4020	Towngate J&I School	5	-	-	-	5
4029	Redhill Primary School	99	-	-	-	99
4032	Hendal Primary School	34	-	-	-	34
4037	Half Acres J&I School	96	-	-	-	96
4038	Childrens Centre Hubs	4	-	-	-	4
4040	School Roofing Works	671	-	-	-	671
4041	School Boiler Works	1,019	-	-	-	1,019
4042	School Electrical Works	230	170	-	-	400
4043	School Window Works	303	-	-	-	303
4044	School Asbestos & Compliance Works	200	100	-	-	300
4048	Simpsons Lane J & I School	55	-	-	-	55
4049	School Access Schemes	50	100	-	-	150
4051	Dimplewell Infant School & Nursery	37	-	-	-	37
4052	Southdale CE Junior School	10	-	-	-	10
4055	Smawthorne Henry Moore Primary School	-	284	-	-	284
4059	Pinders Primary School	1,066	-	-	-	1,066
4060	Priory Centre PRU / Springfield Works	1,211	329	130	-	1,670
4061	Kettlethorpe High School	350	2,253	1,505	-	4,108
4063	Horbury St Peters & Clifton J&I School	1,146	-	-	-	1,146
4064	Newton Hill J&I School	2,098	68	-	-	2,166
4065	Bell Lane Academy	122	-	-	-	122
4066	Lawefield Lane J & I School	218	-	-	-	218
4067	Airedale Infants	163	-	-	-	163
4068	Rookeries J & I School	568	580	69	-	1,217
4069	Ledger Lane J & I School	50	610	-	-	660
4072	SENS Review	373	373	373	-	1,119
460	Nursery Provision for 2 Year Olds	37	135	-	-	172
Sub Total Schools		**14,665**	**11,697**	**15,618**	**10,034**	**52,014**
Total Capital Programme		**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

TREASURY MANAGEMENT STRATEGY

2019/20

CONTENTS

1. Introduction

1.1 Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, from 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that full Council fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Treasury Management Reporting

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

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

- an investment strategy, (the parameters on how investments are to be managed).

A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision, if applicable.

An annual (outturn) treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy

The strategy for 2019/20 covers two main areas:

1. Capital issues
   - The capital expenditure plans and the associated prudential indicators;
   - The minimum revenue provision (MRP) policy;

2. Treasury management issues
   - Current treasury position;
   - Treasury indicators which limit the treasury risk and activities of the Council;
   - Prospects for interest rates
   - Borrowing strategy
   - Policy on borrowing in advance of need
   - Debt rescheduling
   - Investment strategy
   - Creditworthiness policy
   - *Policy on use of external service providers*

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

1.4 Training

The CIPFA Code requires the S151 officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Annual training is provided by the Council's treasury management adviser, Link Asset Services and the most recent training was undertaken by Members on 18th October 2018 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. Capital Prudential Indicators

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

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 – Capital Programme Budget

Capital budget 2018/19 to 2021/22

Programme Expenditure	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Total £000
Adults, Health and Communities	5,292	8,589	4,474	4,224	22,579
Corporate Services	1,922	7,237	4,108	2,370	15,637
Children & Young People	587	662	500	-	1,749
Council Wide Budgets	5,307	8,308	8,038	1,068	22,721
Regeneration & Economic Growth	42,048	65,294	55,811	14,145	177,298
Schools	14,665	11,697	15,618	10,034	52,014
Total Expenditure	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

The table below summarised the capital expenditure plans and how these are being financed by capital and revenue resources.

Table 2 – Capital Programme Funding

Capital receipts, grants, prudential borrowing, Revenue Contributions to Capital Outlay (RCCO)

Programme Funding	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Total £000
Prudential Borrowing	30,817	74,387	58,118	11,502	174,824
Grants - Government	33,062	18,429	24,154	18,729	94,374
Other Grants and Contributions	3,942	4,518	2,915	425	11,800
Capital Receipts	2,000	4,453	3,362	1,185	11,000
Total Funding	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

2.2 The Capital Financing Requirement (CFR)

The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the

Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI provider and so the Council is not required to separately borrow for these schemes. The Council currently has £94.7m of such schemes within the CFR.

Table 3 – Capital Financing Requirement

Capital Financing Requirement

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Financing Requirement	369,255	388,656	438,436	465,485	517,354
Movement in CFR		**19,401**	**49,780**	**27,049**	**51,869**

Movement in CFR represented by

Net financing need for the year		22,754	54,406	36,574	63,507
Less MRP and other financing movements		(3,353)	(4,626)	(9,525)	(11,638)
Movement in CFR		**19,401**	**49,780**	**27,049**	**51,869**

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

2.3 Minimum Revenue Provision (MRP) Policy Statement

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

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. This can be varied in-year with Full Council approval. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which was incurred after 1 April 2008 as Supported Capital Expenditure, the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the guidance based on the annuity method.

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the guidance based on the annuity method.

When the MRP Policy was amended in the 2016/17 Treasury Management Strategy Report, it resulted in a cumulative MRP reduction compared with the previous method of charging MRP. As at 1 April 2017, there was a remaining MRP cost reduction of £61.7m. This will be offset annually against MRP charges relating to capital expenditure incurred before 1 April 2016. This will result in a zero MRP charge for this particular element of the residual capital expenditure until the saving is fully consumed.

For capital expenditure incurred after 1 April 2016, capital receipts will be set aside to repay debt and to fund PFI liabilities in the year. The value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been paid from capital receipts.

MRP overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. No overpayments have been made in 2018/19.

Where capital expenditure is incurred on an investment property, MRP may not be applied providing there is a realistic expectation that an asset purchased as an investment property will be sold in the future and the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value including the acquisition cost. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term.

3. Borrowing

The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1. Interest rate forecasts

The Council has appointed Link Asset Services as its treasury adviser and part of their service is to formulate a view on interest rates.

Table 4 – Interest rate forecasts

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after 30 June 2018 meant that the MPC decided on 2 August 2018 to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

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

Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well of the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when councils may not be able to avoid borrowing to finance capital expenditure and/or the financing of maturing debt.

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances at this position will, most likely, incur a revenue cost.

3.2. Investment and borrowing rates

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

Borrowing interest rates have been volatile so far in 2019/20 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.3. Borrowing strategy

The Council has the facility to borrow in respect of the following:

- Maturing debt (net of MRP)
- Approved and unsupported capital expenditure
- To finance cash flow in the short term

The projected debt portfolio taking into account the strategy and borrowing requirements is shown in the following table

Table 5 – Debt Portfolio projection

Debt Portfolio Projection

Borrowing	31 March 2019 £000	31 March 2020 £000	31 March 2021 £000	31 March 2022 £000
By Lender:				
Public Works Loan Board	118,616	168,482	208,336	264,586
Banks & Other Financial Institutions	50,000	50,000	50,000	50,000
TOTAL BY LENDER	**168,616**	**218,482**	**258,336**	**314,586**
By Maturity:				
Up to 1 year	134	146	3,750	2,257
Between 1 and 2 years	146	3,750	2,257	4,056
Between 2 and 5 years	10,063	20,649	25,960	24,761
Between 5 and 10 years	30,551	18,114	18,998	18,630
More than 10 years	127,722	175,823	207,371	264,882
TOTAL BY MATURITY	**168,616**	**218,482**	**258,336**	**314,586**
Percentage variable rate debt	29.65%	22.89%	19.35%	15.89%

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there is significant risk of a sharp fall in long and short-term rates, then long-term borrowing would be postponed, and potential rescheduling from fixed rate funding into short-term borrowing would be considered.
- If it was felt that there was a significant risk of a much sharper rise in long and short-term rates that that currently forecast then the portfolio position would be re-appraised and consideration given to the option of fixed rate funding being drawn whilst interest rates were relatively low against the strategy of maintaining a position of being under-borrowed..

3.4. Borrowing requirement

Continuation of the strategy to postpone borrowing and run down investment balances will be considered within any review of borrowing need. This strategy reduces counterparty risk and hedges against the fall in investment returns.

It is currently forecast that the Council will be required to borrow £100m over the years 2019/20 to 2020/21. These borrowing forecasts have been factored into the prudential indicators.

The estimated borrowing requirement for the period from 2018/19 to 2021/22 is shown in the following table:

Table 6 – Borrowing Requirement

	2018/19 Estimated £000	2019/20 Estimated £000	2020/21 Estimated £000	2021/22 Estimated £000
Under Borrowed Position 1 April	119,802	139,118	136,407	121,830
New Borrowing		(50,000)	(40,000)	(60,000)
Maturing Debt/Early repayments	1,388	134	146	3,750
Other Local Authority Debt Repayments	(712)	(681)	(523)	(504)
Change in PFI liabilities	(761)	(1,944)	(1,250)	(520)
Deferred Income Write off on Waste PFI	(334)	(334)	(334)	(334)
Prudential Borrowing	22,754	54,406	36,575	63,507
Minimum Revenue Provision	(3,019)	(4,292)	(9,191)	(11,304)
Planned Under Borrowed Position 31 March	**139,118**	**136,407**	**121,830**	**116,425**

3.5. Borrowing in advance of need

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

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

3.6. Debt rescheduling

The Chief Finance Officer, under delegated powers, and treasury advisers will monitor prevailing rates for any debt restructuring opportunities during the year, taking into account the following factors:

- The maturity profile – i.e. restructuring will only be actioned where it complies with the maturity profile limits
- The capacity to achieve on going revenue savings
- The impact of premiums and discounts
- The impact on prudential indicators

4. Annual Investment Strategy

4.1 Investment policy – management of risk

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

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties
- The Council has a list of the types of investment instruments that the treasury management team are authorised to use
  - ➢ Specified investments – those with a high level of credit quality and subject to maturity limit of one year
  - ➢ Non-specified investments – those with less high credit quality and may be for periods in excess of one year. A limit of £50m will be applied to these investments.
- The Council will set a limit for the amount of its investments which are invested for longer than 365 days
- Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.
- All investments will be in sterling.
- As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018.)

However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is

- **Banks 1 - Good Credit Quality** – the Council will only use banks which:
  Are UK banks; and/or
  Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA
  And have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
  Short Term – F1
  Long Term – A

- **Banks 2** – Part nationalised UK banks – currently Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or it meets the ratings in Banks 1 above.

- **Banks 3** – The Council's own banking contract. At the point of awarding a banking contract the bank must have a minimum individual short term credit rating of F2 (Fitch) or equivalent and a minimum Sovereign long term rating of BBB, from each of the major credit rating agencies: Fitch, Moody's and

Standard and Poor's (where rated). The ratings reflect that the cash held with the Council's own bank is on a basis of overnight deposit.

- **Bank Subsidiary and Treasury Operation** – the Council will use these where the parent bank has the necessary ratings outlined above.

- **Building Societies** – the Council will only use Societies whichmeet the ratings for banks outlined above

- **Money Market Funds** (CNAV,LVNAV,VNAV)– Long-term credit rating AAA

- **UK Government** (including the Government's Debt Management Account Deposit Facility(DMADF))

- Local authorities, police & crime commissioners, fire authorities, parish councils or community councils

A limit of £50m will be applied to the use on non-specified investments. This limit will be kept under review during 2019/20 and any changes considered appropriate arising from changing economic conditions will be reported back to Cabinet for approval.

Country and Sector Considerations – Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- No more than £10m will be placed with any non-UK country at any time;
- Limits of £10m will apply to Banking Groups.
- Sector limits will be monitored regularly for appropriateness

Use of additional information other than credit ratings – Requirements under the Code of Practice requires the Council to supplement credit rating information. The Council has arrangements in place to assess additional operational market information before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) is applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits applying to Investments - The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch (or equivalent)		Money Limit	Time Limit
	Short Term	Long Term		
Banks 1	F1+	AA	£10m	3yrs
Banks 1	F1+	AA-	£5m	3yrs
Banks 1	F1	A+	£5m	2yrs
Banks 1	F1	A	£10m	365 days
Building Societies	F1	A	£5m	365 days
Banks 2 Part nationalised UK Banks	-	-	£5m or as for banks 1 if they meet the minimum credit criteria	Up to 1 year while they continue to be part-nationalised or as for Banks 1 if they meet the minimum credit criteria
Banks 3 The Council's own Banker	-	-	If it does not meet the minimum credit criteria for specified investments to be kept within the Non-Specified Limit	If it does not meet the minimum credit criteria for specified investments to be kept to a minimum
Other Institution Limits (Other Local Authorities)	-	-	£10m	2yrs
Money Market Funds (MMFs)	-	AAA	£10m	365 days
Debt Management account Deposit Facility (DMADF)	-	-	Unlimited	365 days

Within any of the limits above, the maximum amount to be invested in any one institution at any time is £10m (excluding own banker and DMADF).
The maximum total amount which can be invested in periods longer than 365 days is £30m.

4.3 Liquidity of Investments

In the normal course of the Council's cash flow operation it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the longer-term investments limits.

4.4 Specified Investments

An investment is a specified investment if all of the following apply:

- It is sterling denominated
- It is not a long term investment (ie due to be repaid within 12 months of the date on which the investment was made, or one which the local authority may require to be repaid within that period)
- The making of the investment is not defined as capital expenditure
- The investment is made with a body or in an investment scheme of high credit quality or is made with any one of the following public sector bodies;
  - ➢ The United Kingdom Government
  - ➢ A local authority, a police and crime commissioner/fire authority in England and Wales or a similar body in Scotland or Northern Ireland
  - ➢ A parish council or community council

The following ratings (provided by the credit rating agencies) are the minimum the Authority will use to determine that a body has "high credit quality" as required by the CLG guidance. Investments will only be made at ratings at or above these levels:

Agency	Long Term	Short Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-1

Determining the ratings at this level for the placing of investments means that the ratings would have to be reduced by at least two levels before causing concern.

For investments in periods of less than one year, only the short-term credit rating may be referred to where this is felt to be appropriate.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the revised CIPFA Treasury Management Code of Practice.

The list of specified investments for the Council is as follows:

All less than 365 days

Institution / Instrument

- The UK Government (including the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills).
- Pooled investment vehicles (such as money market funds) that have been awarded a high long term credit rating by a rating provided by credit rating agency. (AAA being the highest rating agencies)
- A local authority, a police and crime commissioner, fire authority, parish council or community council
- Pooled investment vehicles (such as money market funds) that have been awarded a high long term credit rating by a credit rating agency. (*AAA* being the highest rating provided by credit rating agencies)
- A body that is considered of a high credit quality (such as a bank or building society)

4.5 Non-specified Investments

Non-specified investments are any other type of investment (ie not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below:

- Part nationalised UK banks – where they do not meet the basic criteria
- The Council's own banker where its rating does not meet the specified investments criteria. In this instance, balances will be minimised as far as possible.
- The Council will review categories of non-specified investments on an annual basis in discussion with its external Treasury Advisers (Link) and amend the categories appropriately.

4.6 Monitoring Credit Ratings

The credit ratings of counterparties are monitored on a weekly basis using credit rating information received from the Council's Treasury Advisors on all active counterparties that comply with the above criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are received almost immediately after they occur and this information is used to review the counterparty list before dealing with a counterparty.

The information provided includes the credit ratings and potential changes to credit ratings of counterparties with whom the Council has current investments.
If a rating is downgraded on an institution with which the Council has an existing investment then the following action is taken:

- If it goes below the minimum criteria the Council has established, (with all agencies with whom the counterparty is rated for specified investments), the risk implications are discussed with our external advisors and if it is deemed appropriate a request is made to return the investments.
- It should be noted, however, that the general position taken by investment counterparties is not to return wholesale term deposits before the maturity date.
- If it remains within the investment criteria then the risk implications are discussed with our external advisors and the position monitored.

Any counterparty failing to meet the minimum criteria, as set out above, is immediately removed from the investment list and will not be considered for new investments.

Where ratings are upgraded, new counterparties are added to the list when they meet the minimum criteria.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria, under the exceptional current market conditions the Chief Finance Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be use of the Debt Management Deposit Account Facility, money market funds, part nationalised banks and strongly rated institutions offered support by the UK Government.

4.7 Treasury Management Advisers

Link Asset Services are the Council's treasury management advisers. They provide a range of services which include:

- Technical support on treasury matters, capita finance issues and advice on the drafting of Member reports
- Economic and interest rate analysis
- Debt services which includes advice on the timing of borrowing
- Debt rescheduling advice surrounding the existing portfolio
- Generic investment advice on interest rates, timing and investment instruments

- Credit ratings/market information service comprising the three main credit rating agencies

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. The advisory service is subject to review.

4.8 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. The Council has addressed this important issue by providing:

Member training
Treasury Management awareness courses are provided regularly for Members. The latest course was held on 18 October 2018 and it is expected that further treasury management training will continue to be made available on a regular basis.

Officer training
Regular intermediate and advanced treasury management training is undertaken by key members of staff. The majority of this training is provided by Link Asset Services, however, staff are also encouraged to undertake other relevant training as it becomes available.

ANNEXES

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Prudential and treasury indicators

To facilitate the decision making process and support capital investment decisions, the Prudential Code requires the Council to approve and monitor a minimum number of prudential indicators. These indicators are mandatory and cover affordability, prudence, capital expenditure, external debt and treasury management.

The indicators are purely for internal use by the Council and are not intended to be used as comparators between councils. In addition to this in-year indication, the benefit from monitoring arises from following the movement in indicators over time and the year-on-year changes.

Based upon historical performance of the capital programme, the prudential indicators allow for a rephrasing of capital expenditure (due to slippage, delays beyond the council's control, etc.) and includes a reduction of 80% in 2018/19, 70% in 2019/20, 60% in 2020/21 and an equivalent increase in 2021/21, the final year of the current capital programme.

Capital Expenditure

- Estimates of capital expenditure

The authority has to make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. The following table identifies the estimated expenditure 2018/19 – 2021/22:

Table expenditure by service

Programme Expenditure	**Budget 2018/19 £000**	**Budget 2019/20 £000**	**Budget 2020/21 £000**	**Budget 2021/22 £000**	**Total £000**
Adults, Health and Communities	5,292	8,589	4,474	4,224	22,579
Corporate Services	1,922	7,237	4,108	2,370	15,637
Children & Young People	587	662	500	-	1,749
Council Wide Budgets	5,307	8,308	8,038	1,068	22,721
Regeneration & Economic Growth	42,048	65,294	55,811	14,145	177,298
Schools	14,665	11,697	15,618	10,034	52,014
Total Expenditure	**69,821**	**101,787**	**88,549**	**31,841**	**291,998**

The estimated expenditure for 2020/21 and 2021/22 includes estimates of government grant allocations, where allocations remain to be confirmed. The government also announce one-off allocations of grant from time to time. It is likely therefore that capital expenditure will increase in these years subject to grant announcements and successful council bids for funding.

- Estimates of capital financing requirements (CFR)

The authority has to make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two financial years. These are shown in the following table together with the actual for 2017/18 for comparative purposes:

Estimates of capital financing requirement

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Financing Requirement	369,255	388,656	438,436	465,485	517,354

Council's own direct estimates of capital financing requirements

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Financing Requirement excluding PFI schemes	275,318	293,958	341,794	367,593	418,942

The local indicator excludes PFI schemes which are fully funded. By removing this item the local indicator shows the Council's own capital investment and gross debt.

Reductions in the CFR relate to the reduction in capital expenditure (net of MRP) that is to be funded from borrowing, increases in CFR relate to the increase in capital expenditure (net of MRP to be funded from borrowing).

Affordability indicators

Within the prudential framework, indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances.

- Ratio of financing costs to net revenue stream

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	9.41%	10.30%	11.06%	13.56%	14.97%

The Prudential Code requires that financing costs of private finance initiative schemes and other finance arrangements are included within this indicator, even though the Council is not incurring borrowing costs directly on these issues. A position which better reflects the comparator between the Council's own net borrowing costs and the revenue budget is shown below.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	4.02%	5.14%	5.98%	8.51%	9.99%

The estimates of financing costs include current commitments and the proposals in the budget report. The actual ration for 2018/19 will be reported in the outturn report on treasury management activities.

Prudence indicators

- Gross debt and the capital financing requirement

The Prudential Code requires the calculation of the capital financing requirement (CFR). This figure represents the Council's underlying need to borrow for a capital purpose and the change year-on-year will be influenced by the capital expenditure in the year.

In order to ensure that over the medium term gross debt will only be for capital purposes, the Council must ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. In cases where the CFR is reducing over the period, the Code allows the CFR at its highest point to be used in this calculation.

The Authority had no difficulty meeting the previous calculation in 2017/18, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report and is shown in the table below.

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	155,516	154,840	205,387	245,763	302,517
PFI Schemes	93,937	94,698	96,642	97,892	98,412
Total Gross Debt	**249,453**	**249,538**	**302,029**	**343,655**	**400,929**
Capital Financing Requirement	369,255	388,656	438,436	465,485	517,354
Planned Under Borrowed	**119,802**	**139,118**	**136,407**	**121,830**	**116,425**

External debt indicators

- Authorised limit

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices.

	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	168,616	218,483	258,336	314,586
Other Local Authority Borrowing	-13,777	-13,097	-12,573	-12,069
Borrowing Limit to CFR	139,119	136,408	121,830	116,425
Total Authorised Borrowing Limit	**293,958**	**341,794**	**367,593**	**418,942**
Long Term PFI Liabilities	94,698	96,642	97,892	98,412
Total Authorised Limit for External Debt	**388,656**	**438,436**	**465,485**	**517,354**

- Operational boundary

The operational boundary for external debt is based on the same estimates as the Authorised Limit but is based on the probable external debt during the course of the year. This is both the Council borrowing and that managed on behalf of other Authorities. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It will act as an indicator to ensure the Authorised Limit is not breached.

	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	204,415	251,829	291,731	357,189
Other Long Term Liabilities (Excl PFI)	4,000	4,000	4,000	4,000
Long Term PFI Liabilities	94,698	96,642	97,892	98,412
Total Operational Boundary for External Debt	**303,113**	**352,471**	**393,623**	**459,601**

- Actual external debt as at 31 March

This will be reported within the outturn report on treasury management.

Treasury management indicators

- Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

The Council complies with the requirements of this code and the relevant clause is contained in Financial Procedure Rule 16.1.

- Interest rate exposure

The Council has to set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in The council has to set for the forthcoming year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. The indicators relate to both fixed interest rates and variable interest rates.

- Upper limit on fixed interest rates
  The Council's upper limit for fixed interest rate exposure for the period

2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
169	218	258	268

- Upper limit on variable interest rates
  The Council's upper limit for variable interest rate exposure for the period

2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
90	90	90	90

- Maturity structure of borrowing

The authority must set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. The indicator identifies the amount of projected borrowing that is maturing in each period expressed as a percentage of total projected borrowing. The percentages are shown below over the specified periods.

Maturity structure of borrowing	Upper Limit %	Lower limit %
Under 12 Months	45	0
12 - 24 Months	50	0
2 Years - 5 Years	60	0
5 Years - 10 Years	90	
10 Years - 15 years	90	
15 years - 20 Years	90	
20 Years - 25 Years	90	
25 Years - 30 years	90	30
30 Years - 35 years	100	
35 Years - 40 Years	100	
40 years - 45 years	100	
45 Years - 50 Years	100	
50 Years and above	100	

- Total principal sums invested for periods longer than 365 days

If the authority invests or plans to invest for longer than 365 days it has to set an upper limit for each financial year for the maturing of such investments.

Upper limit for principal sums invested for longer than 365 days			
	2019/20 £m	2020/21 £m	2021/22 £m
Principal sums invested for longer than 365 days	30	30	30
Current invetments as at 31 December 2018 in excess of 1 year maturing in each year	4	0	0

Total Principal Sums invested for periods longer than 365 days where the maturity date is beyond the financial year end.

Treasury Management Practices

TMP1: Treasury risk management

Credit and counterparty risk

- The risk of failure of a third party to meet their contractual obligations under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness.

Liquidity risk

- The risk that cash will not be available when needed.

Interest rate risk

- Fluctuations in the levels of interest rates create an unexpected or an unbudgeted burden on an organisation's finances against which it has failed to protect itself adequately.

Inflation Risk

- The sensitivity of its treasury assets and liabilities to inflation and managing the risk accordingly in the concert of the whole organisation's inflation exposures.

Exchange rate risk

- The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on an organisation's finances.

Refinancing risk

- The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and revenue.

Legal and regulatory risk

- The risk that the organisation fails to act in accordance with its powers or regulatory requirements.

Fraud error, corruption and contingency management

- The failure to employ suitable systems and procedures and to maintain effective contingency management arrangements to these ends.

Market risk

- The risk that through adverse market fluctuations in the value of the principal sums an organisation invests, it's stated policies and objectives are compromised.

TMP2: Performance measurement

The process designed to calculate the effectiveness of the portfolio's or manager's investment returns or borrowing costs and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognised industry standards or market indices.

TMP3: Decision-making and analysis

Consideration of key aspects such as risk, legality, creditworthiness and competitiveness.

TMP4: Approved instruments, methods, and techniques

Consideration of the types of investment instruments the organisation is legally able to deal in and also the level of competences available within the organisation to allow effective decisions to be taken.

TMP5: Organisation, clarity and segregation of responsibilities and dealing arrangements

Clear organisational and decision making lines, clearly laid down division of responsibilities, proper internal control procedures in place.

TMP6: Reporting requirements and management information requirements.

Covering reporting lines and frequencies.

TMP7: Budgeting, accounting, and audit arrangements

Covering manpower costs, debt and financing costs, bank and overdraft charges, brokerage commissions, external advisor's and consultants' costs.

TMP8: Cash and cash flow management

The preparation of cash flow management forecasts and 'actuals' to determine acceptable levels of cash balances, the adequacy of overdraft facilities and the optimum arrangements for investing and managing surplus cash.

TMP9: Money laundering

Making Treasury staff aware of the provisions of the Money Laundering Regulations (2007) and associated legislation such as the Terrorism Act 2000 and the Proceeds of Crime Act 2002, and ensuring (as far as possible) that adequate procedures are in place to ensure effective compliance with them.

TMP10:Training and qualifications

Ensuring the staff training and development regime is in place and that staff are competent to operate within a treasury environment.

Ensuring that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs an those responsibilities.

TMP11:Use of external service providers

Ensuring that correct appointment and renewal procedures are followed.

TMP12:Corporate governance

The code requires a commitment to the principles of corporate governance, which will embrace the TPS itself, treasury policies, procedural guidelines and defined responsibilities, dealings with counter parties and external bodies.

Treasury Management Report for the Period to 31 December 2018

1. 2018/19 Treasury Strategy and actions to date

1.1 **Strategy –** The Council will borrow to cover the impact of maturing debt, and approved unsupported (prudential) capital expenditure but will manage a sustainable level of under-borrowing in order to optimise use of its cash flows and minimise investment counterparty risk.

Information –

	2018/19 Estimate £m
Under borrowing c/f from 2008-09 onwards	119.80
Maturing Loans/Early Repayments	1.39
Other Local Authority Debt	(0.71)
Prudential borrowing	22.75
	143.23
Less: MRP and other repayments In-year	(4.25)
Total Amount under Borrowed as at 2017/18	138.98

There is a significant increase in the estimated borrowing requirement in 18/19. This is due to the policy of using prudential borrowing to fund capital expenditure instead of corporate resources (capital receipts).

Action – No PWLB borrowing has been undertaken as at 31 December 2018. Decisions on the optimum level of long-term borrowing within the borrowing requirement will be taken during 2018/19 having regard to the prevailing investment and borrowing markets, the Council's cash flow position and future capital expenditure plans.

1.2 **Strategy** – To consider debt restructuring either through premature repayments, converting fixed rate debt to variable rate debt or vice versa, or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

Action – No debt rescheduling exercises have been undertaken so far in 2018/19. As there have been no cost effective opportunities for the council to do so.

1.3 **Strategy** – To manage the Authority's debt maturity profile by seeking to ensure that the maturity profile is kept within the Prudential Indicator Limits set for 2018/19.

Information – The existing debt maturity profile is in line with this requirement.

Action – There are no periods where repayments exceed the indicator which has been set.

1.4 **Strategy** – To maintain a spread of maturity dates for cash deposits.

Information – Investable funds were £33.6m as at 1 April 2018 and £44.3m as at 31 December 2018.

Action – A total of 18 deposits equating to £101m have been made as at 31 December 2018. The periods on deposit ranged from 13 days to 548 days.

2. Current Portfolio Position

2.1 The Council's debt and investment position as at 31st December 2018 is shown in the table below.

Treasury Position as at 31 December 2018	**Amount £m**	**Average Interest Rate %**
Fixed Rate Funding:		
Public Works Loan Board	118.7	6.11
Market Loans	NIL	
Temporary Loans	NIL	
Variable Rate Funding/Temporary Loans:		
Public Works Loan Board	NIL	
Market Loans	50.0	5.34
Total Debt	**178**	**5.55**
Investments:		
Wholesale Cash Deposits	44.3	0.85
Total Investments	**44.3**	**0.85**

2.2 The Amount of total debt that is variable is currently £50m, which is 29.64% of total debt (excluding temporary borrowing).

- All new long term borrowing will be either PWLB fixed/PWLB variable rate loans or fixed rate market loans.
- Opportunities to prematurely repay market loans will be investigated and action taken in line with the criteria in 1.2 above.

2.3 The investments figure represents the level of reserves and balances together with net working capital i.e. the cash flow benefit that derives from income receipts flowing in faster than payments are made. It is currently estimated that external income earned from cash deposits during 2018/19 will be £0.16m including income earned on behalf of other funds e.g. trust funds, investment of internal balances.

3. Banking Arrangements

3.1 The Council entered into a five year contract for its banking arrangements with Barclays Bank on 1 October 2013. The Council has taken up the option to extend the contract for a further two years.

3.2 Bank charges are based on changes in the level of activity from year one base figures plus inflation. In order to minimise costs the Council makes every effort to reduce the amount of cash and cheques collected and/or paid out and replace them with electronic processes.

3.3 There is regular contact between the Council and the bank to ensure that the service being provided is as specified and to identify new opportunities and services which the bank may be able to provide.

3.4 The Council's own banker was identified as a specified investment in the investment strategy agreed for 2018/19. The Council determines the credit rating criteria for its banking facility separately from the criteria applied to wholesale cash deposits. This recognises that funds held with the Council's own banker are overnight deposits and not term deposits.

4. Cash Flow

4.1 Estimates are made of the Authority's cash flow on an annual, monthly, weekly and daily basis. These are used to plan the investment activities and are monitored on an on-going basis.

4.2 Daily cash flows are monitored to achieve minimum utilisation of bank overdraft facilities.

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