Lincolnshire COUNTY COUNCIL
Working for a better future

Executive Councillor

Open Report on behalf of Pete Moore, Executive Director of Finance & Public Protection

Report to:	**Councillor M J Hill, OBE - Leader of the Council and Executive Councillor for Resources and Communication**
Date:	**22 March 2019**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2019/20**
Decision Reference:	**I017210**
Key decision?	**No**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2019/2020. It is prepared in accordance with the 2017 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council. The decision to include the requirements of the CIPFA Code in the Constitution was adopted by the Council in 2011 as part of agreement to revisions to the Council's Constitution.

The Annual Investment Strategy for Treasury Investments is an annual statement that sets out the Council's policies for investing its surplus cash for the year ahead and has been prepared in accordance with the Local Government Act 2003 and supporting guidance.

Recommendation(s):

That the Leader of the Council approves:

(1) The Treasury Management Strategy Statement for 2019/2020, as detailed in Section 2 of this report.

(2) The Annual Investment Strategy Statement for Treasury Investments 2019/2020, as detailed in Section 3 of this report.

Alternatives Considered:	
1.	Not to approve the strategies or to approve amended strategies.

Reasons for Recommendation:

The Council's Financial Regulations require the Council to prepare annually a Treasury Management Strategy Statement and an Annual Investment Strategy Statement for Treasury Investments.

The strategies proposed in this Report have been developed with regard to relevant Guidance and in accordance with the Council's financial policies. They are aligned to the Council's Prudential Indicators. The advice of the Council's Treasury Management advisors has been taken during the course of developing the strategy and the proposals in this report are considered to be the most appropriate approach for the Council to adopt.

1. Background

1. INTRODUCTION/BACKGROUND

1.1. Treasury Management

1.1.1. Treasury Management is defined by CIPFA as **'the management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'**.

1.2. Relevant Treasury Management Regulation / Legislation

1.2.1. The Council's treasury management activities are governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, whose key requirements were adopted by the Council in May 2011 as part of Financial Regulations -Section C.

1.2.2. The Local Government Act 2003, effective from 1st April 2004;

- ~ Requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next 3 years to ensure that the Council's capital investment plans (including borrowing plans) are affordable, prudent and sustainable.
- ~ Requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy for Treasury Investments that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

- Gives the Council statutory power to invest for “any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs”, including investments made in the course of treasury management.

1.2.3. In December 2017 CIPFA published a revision to both the Code of Practice for Treasury Management and the Prudential Code. The prime reason of these revisions being to highlight the increased emergence of **non-treasury investments** held in other financial assets and property, primarily held for return by Councils. Such activity also includes loans supporting service outcomes, investments in subsidiaries and investment in property portfolios. CIPFA has emphasised that these investments, although not part of general treasury management activity, are the responsibility of the S151 Officer and should therefore be managed and subject to the same risk / return considerations as for treasury investments. The Government also issued revised 'Guidance on Local Government Investments' in February 2018 which extended the meaning of investments to include these non-treasury investments and loans.

1.2.4. Following CIPFA's and the Governments new recommendations and guidance, details of these non-treasury investments and loans will be included in an annual **Capital Strategy**, which will also set out the Council's risk appetite and specific policies and governance arrangements for these types of investments. The purpose of the Capital Strategy will be to demonstrate that the Council takes capital expenditure and non-treasury investment decisions in line with service objectives and properly takes into account stewardship, value for money, prudence, sustainability and affordability. It will set out the long term context in which capital expenditure and investment decisions are made, the due diligence undertaken for non-treasury investments and will give due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy was presented to the Overview and Scrutiny Management Board for scrutiny on 31st January 2019 and is being presented to Full Council for approval on 22nd February 2019, along with the Council Budget for 2019/2020.

1.3. Purpose of Report

1.3.1. This report comprises the Treasury Management Strategy Statement for 2019/2020 as Section 2 and the Annual Investment Strategy for Treasury Investments 2019/2020 as Section 3 and has been prepared in accordance with the CIPFA Code of Practice for Treasury Management 2017.

- Treasury Management Strategy Statement 2019/2020

  The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2019/2020.

- The Annual Investment Strategy 2019/2020

  The Annual Investment Strategy for Treasury Investments sets out the Council's policies for investing its surplus cash for the year 2019/2020 and for giving priority to the security and liquidity of its investments over the return on those investments. It forms the basis of the 'Approved Investment Criteria' followed by the Council when making its treasury investments. It does not relate to the Council's non-treasury investments. The investment strategy followed by the Council for its non-treasury investments will be detailed in the forthcoming Capital Strategy 2019/2020.

1.4. Reporting Arrangements

1.4.1. In accordance with the requirements of the revised Code, this Treasury Management Strategy and Annual Investment Strategy for Treasury Investments will be presented to the Overview & Scrutiny Management Board for scrutiny and then submitted to the Executive Councillor with responsibility for finance for approval prior to the start of the financial year.

1.4.2. Quarterly update reports will then be presented to the Overview & Scrutiny Management Board throughout the financial year which will monitor and report on actual activity against the approved Strategy.

1.4.3. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

2. TREASURY MANAGEMENT STRATEGY STATEMENT 2019/2020

2.1. Introduction

2.1.1. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in light of the Capital & Revenue expenditure plans of the Council and the anticipated movement in interest rates. The strategy for 2019/2020 is therefore based upon the Capital & Revenue expenditure plans of the Council and the Treasury officers' current views on interest rates for the year ahead, supplemented with leading market forecasts provided by the Council's treasury management advisor, Link Asset Services Ltd. The strategy covers the following areas:

- The current long term external borrowing & investment position;
- Capital Expenditure Plans & Capital Financing (Borrowing) Requirement 2018/2019 to 2021/2022;
- Affordable borrowing limit for 2019/20 to 2021/2022;
- Revenue Provision for the Repayment of Debt Policy (MRP);
- Interest rate exposure – Borrowing;
- Performance –Borrowing;
- Borrowing in Advance of Need;
- Debt Rescheduling;
- Prospect for interest rates 2019 to 2022;
- Long term borrowing strategy 2019/2020;
- Investment strategy 2019/2020;
- Short term (cash flow) borrowing strategy 2019/2020;
- Other current treasury issues.

2.2. Current Long Term External Borrowing & Investment Position

2.2.1. In order to place the Treasury Management Strategy in context, the Council's treasury portfolio position at 31.12.2019 comprised:

		Principal £million	Ave Rate %
Long Term Borrowing			
Opening Balance	01.04.18	461.391	4.09%
New Borrowing to	31.12.18	20.000	2.43%
Borrowing Repaid to	31.12.18	(25.497)	
Rescheduling:			
Borrowing Repaid Early to	31.12.18	(10.000)	3.80%
Borrowing Replaced	31.12.18	10.000	2.58%
Total Borrowing at	**31.12.18**	**455.894**	**4.02%**
Investments*			
LCC at	31.12.18	266.119	
Pension Fund at	31.12.18	6.944	
Total Investments at	**31.12.18**	**273.063**	**0.94%**
Net Borrowing at	**31.12.18**	**182.831**	

* Note this balance excludes non-treasury investments.

2.3. Capital Expenditure Plans & Capital Financing (Borrowing) Requirement 2018/2019 to 2021/2022

2.3.1. The Council's capital expenditure plans are the key driver of treasury management activity as it sets the long term borrowing requirement plans for the Council.

2.3.2. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. It does this by setting a series of Prudential Indicators that ensure and demonstrate the Council's capital expenditure plans remain affordable, prudent and sustainable.

2.3.3. Annex A shows a summary of the actual **Prudential Indicators** for 2017/18 and the estimated prudential indicators for 2018/19 through to 2021/22, which are submitted, as per the requirements of the Prudential Code, with the Council Budget 2019/20 Report, which is to be considered at the meeting of the County Council on 22nd February 2019.

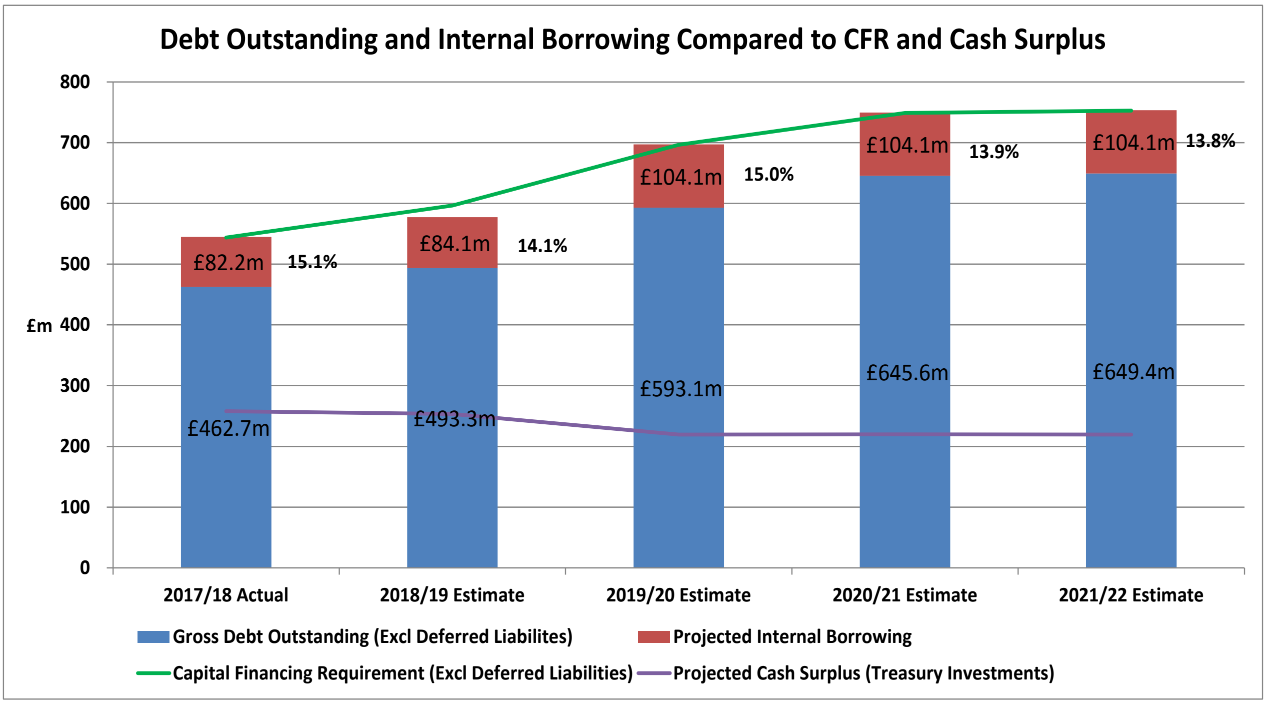
2.3.4. Extracted from these Prudential Indicators, shown in the table below, is the Council's **capital expenditure plans** for the reporting period and the element of this expenditure which is not to be financed straight away from cash resource or grants, hence to be financed at a future date by borrowing (**the borrowing requirement**). The table also shows the amount of external borrowing taken which is due to mature over the reporting period which impacts on the total indebtedness of the Council.

	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Total £m
Capital Expenditure Plans	188.308	178.500	127.556	30.056	**524.420**
New Borrowing Requirement	70.080	118.353	76.794	30.056	**295.283**
Maturing Borrowing Requirement	35.497	14.354	14.354	11.064	**75.269**

Capital Financing Requirement

2.3.5. **The Capital Financing Requirement** (CFR) is another Prudential Indicator (Number 2) shown in Annex A. It is a measure of the amount of capital expenditure that the Council has already spent that has yet to be funded from cash resources i.e. the Council's total indebtedness or **need to borrow for capital financing purposes**. Credit arrangements (finance leases and private finance initiatives) are also included in the CFR as they have the same practical impact as borrowing. The CFR is increased each year by the **new borrowing / credit arrangement** requirement, as highlighted in the table above, and reduced each year by the **Minimum Revenue Provision (MRP)**, (the Council's policy for the repayment of debt). This policy is outlined in Annex B and explained later in this report at 2.5.

2.3.6. The graph below shows the actual CFR for 2017/18 and forward projections to 2021/22, compared to the actual level of external debt the Council holds. The difference between the CFR level and the external debt level is known as **Internal Borrowing**. This represents the amount of borrowing requirement being met by the Council's internal balances and cash flow rather than by taking external borrowing. This internal borrowing or 'under borrowed' strategy is a way of managing risk and has been prudent whilst investment returns are low and counterparty risk is high. The graph shows that this internal borrowing level is forecast to maintain at around 15% of the CFR. The predicted effect on the Council's cash resource by maintaining this level of internal borrowing is indicated by the blue line on the graph below showing cash balances being sustained, falling to just over £200m for the forecasted period, a level the Council deems sustainable. It should be noted however that the decision to turn internal borrowing into external debt can be made at any time, given the right market conditions, without affecting the level of the CFR.



2.3.7. The rising green line in the above graph indicates that the total CFR(or borrowing requirement) is increasing year on year which means new borrowing commitments are outstripping the minimum provision to repay debt (i.e. MRP) each year to 2021/22.

2.4. Affordable Borrowing Limit for 2019/2020 to 2021/2022

2.4.1. The Council has a statutory duty, in accordance with the Local Government Act 2003, to determine and keep under review how much it can afford to borrow i.e. to determine its "**Affordable Borrowing Limit**".

2.4.2. The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is acceptable. Both external borrowing and credit arrangements (other forms of financing, such as finance leasing and private finance initiative arrangements (PFI)) are included within this Affordable Borrowing Limit.

2.4.3. It is also a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. This means that increases in capital expenditure must be limited to a level whereby increased capital finance costs are set to a level that is affordable within the projected income of the Council for the foreseeable future.

2.4.4. The Prudential Indicator for the '**Authorised Limit for External Debt**' (Number 4), as required by the Prudential Code, is the statutory Affordable Borrowing Limit as determined under the 2003 Act, and this limit must be set on a rolling basis for the forthcoming financial year and two successive financial years. The Council's Authorised Limit for External Debt for 2019/20 to 2021/22 is shown in the table below and it can be seen that the Council's actual external debt forecast as shown in the graph at 2.3.6 falls within these limits set.

	2019/20 £million	2020/21 £million	2021/22 £million
Borrowing	696.847	737.584	734.829
Other Long Term Liabilities	12.026	11.260	10.495
TOTAL	**708.873**	**748.844**	**745.324**

2.4.5. **The County Finance Officer** has responsibility to set the Authorised Limit for External Debt, to monitor the external debt level and to report to the Executive Councillor with responsibilities for finance, if he is of the view that the limit is likely to be breached. The Executive Councillor has then to decide to take appropriate action for the limit not to be breached or to raise the limit if prudent to do so.

2.5. Revenue Provision for the Repayment of Debt Policy (MRP)

2.5.1. Financing capital expenditure by borrowing allows the Council to incur capital expenditure that it does not immediately fund from cash resources. Instead, the Council sets cash resource aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as making **minimum revenue provision (or MRP) for the repayment of debt.**

2.5.2. Regulations in 2008 set a duty for the Council to set aside a minimum revenue provision (MRP) for the repayment of debt annually on a prudent basis. **Statutory Guidance on the MRP**, which the Council must 'have regard' to, accompanies the regulations and provides options for calculating a prudent level of MRP. The aim is to ensure that debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. A revision of the Guidance was issued in February 2018, applicable from 1st April 2019, which focused on MRP relating to non-financial asset investments and a number of clarifications on maintaining a prudent level of MRP (e.g. Using realistic asset lives in calculations and no negative MRP).

2.5.3. Annex B outlines the methodology the Council follows to ensure this prudent provision for the repayment of debt using the Average Life of the Assets financed by borrowing method for new borrowing and a straight line repayment method for Pre 2008 debt. Changes to the Council's MRP policy in light of the revised Guidance have been made where indicated. The revenue budget provision for MRP charges in 2019/20 has been completed on a basis consistent with this policy.

2.5.4. The Council’s policy is to actually repay external debt at the MRP level and as a measure of affordability, the following voluntary Prudential Indicator Limit (Number 5) has been set:

‘**MRP and Interest as a percentage of the Councils Income will not exceed 10%’**

2.6. Interest Rate Exposure –Borrowing

2.6.1. Long term loans are usually secured at fixed rates of interest, to provide certainty over the cost of maintaining the loans over their lifetime. However up to **30%** of all borrowing could alternatively be secured at **variable rates of interest**. (This is a voluntary Prudential Indicator (Number 8) as shown in Annex A). This may be appropriate if, for example, funding is required for a relatively short period, or if the Council wishes to defer locking into fixed rate loans because the interest rate forecast indicated that interest rates will be lower than the prevailing rate in the near term.

2.7. Performance –Borrowing

2.7.1. If long term borrowing is undertaken, performance will be assessed against the relevant **PWLB rate for the year** for the application loan type and interest rate banding. **CIPFA Treasury Management benchmarking** will also be considered to compare with other Councils average borrowing rates for the year. **Reducing or keeping increases to the average rate of the debt portfolio to a minimum** will also be a target indicator.

2.7.2. Short term borrowing will be assessed against the average **7 Day London Interbank Offer Rate (7DLIBOR)** for the year or the current **yields on Money Market Funds/investments** for short term borrowing for cash flow purposes.

2.8. Borrowing in Advance of Need

2.8.1. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding.
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- limit borrowing in advance to **no more than 25% of the expected increase in borrowing need (CFR) over the three year planning period**. This is a Voluntary Prudential Indicator (Number 11) as shown in Annex A.

2.9. Debt Rescheduling

2.9.1. Debt rescheduling involves repaying existing loans and replacing these with new loans at different terms for the prime objective of generating financial savings on interest paid.

2.9.2. The Council's Financial Strategy states that 'the Council will actively pursue debt rescheduling to the extent that it will generate financial savings without adding significantly to the overall debt burden'.

2.9.3. To date interest savings have been made by rescheduling existing PWLB EIP[1] loans into PWLB maturity[2] loans. At 31st March 2019 £14.869 million of EIP debt, from the Council's total predicted debt portfolio of £493.294 million will remain to be rescheduled given the opportunity. Some existing LOBO debt has also been rescheduled into PWLB debt, at the request of the LOBO holder, to generate savings over the remaining term of the loan.

2.9.4. Repaying debt early does incur a premium[3] or discount[4] depending on the current level of interest rates compared to the rate of interest on the debt repaid. The timing of any rescheduling during the year will take place to minimise premium or maximise the discount available. This is achieved by repaying loans at a peak in current interest rate levels to reduce the amount of premium due and locking into replacement loans at a trough in current interest rates. This strategy can incur an interest cost due to the delay in replacing debt repaid or interest can be made by borrowing in advance of repaying debt. There is also a level of interest rate risk of any timing decision.

2.9.5. Where possible suitable loans will be selected for rescheduling that match out both premium and discounts, thereby eliminating the cash impact to the Council. Any positions taken via rescheduling will be in accordance with the borrowing strategy position outlined in 2.11 below.

2.9.6. The appropriate timing of any rescheduling will be monitored throughout 2019/20 by the Council and Link Asset Services Ltd. However, PWLB to PWLB debt restructuring is now much less attractive because of the large premiums that would be incurred due to the introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt.

[1] With EIP loans, an equal amount of principal is repaid on a half yearly basis throughout the term of the loan with interest calculated on the reducing balance, hence total payments reduce over the lifetime of the loan.

[2] With Maturity loans, only interest repayments are made during the life of the loan and repayment of principal is made in full at the end of the loan period.

[3] A premium is incurred on repaying a loan early when the interest rate of the loan to be repaid is higher than the current rate available for the remaining duration of the existing loan.

[4] A discount is incurred on repaying a loan early when the interest rate of the loan to be repaid is lower than the current rate available for the remaining duration of the existing loan.

2.10. Prospect for Interest Rates 2019 to 2022

2.10.1. The Council has appointed Link Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates taking into account the current outlook for the UK Economy. Annex C draws together a number of current City Institution forecasts for short term and longer fixed interest rates. The following table gives the Link central view.

Annual Average %	Bank Rate %	Money Rates %		PWLB Borrowing Rates % (Certainty Rate)		
		3 month	1 year	5 year	25 year	50 year
Mar 2019	0.75	0.90	1.20	2.10	2.90	2.70
June 2019	**1.00**	1.00	1.30	2.20	3.00	2.80
Sept 2019	1.00	1.10	1.40	2.20	3.10	2.90
Dec 2019	1.00	1.20	1.50	2.30	3.10	2.90
Mar 2020	**1.25**	1.30	1.60	2.30	3.20	3.00
June 2020	1.25	1.40	1.70	2.40	3.30	3.10
Sept 2020	1.25	1.50	1.80	2.50	3.30	3.10
Dec 2020	**1.50**	1.50	1.90	2.50	3.40	3.20
Mar 2021	1.50	1.60	2.00	2.60	3.40	3.20
Jun 2021	**1.75**	1.70	2.10	2.60	3.50	3.30
Sept 2021	1.75	1.80	2.20	2.70	3.50	3.30
Dec 2021	1.75	1.90	2.30	2.80	3.60	3.40
Mar 2022	**2.00**	2.00	2.40	2.80	3.60	3.40

Economic Commentary

2.10.2. The following paragraphs set the backdrop to the Council's investment management activity in 2019/20 and subsequent years, by providing commentary on the economic outlook:

- **Global Economy**

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall **world growth is likely to weaken in 2019/20.**

A marked acceleration of wage inflation in the US and UK is **seeing inflation predicted to rise in 2019/20**, with all major economies continuing to **increase base rates in 2019,** albeit the ECB is unlikely to start raising rates until late 2019 at the earliest.

A key risk remains to be the timing of key central banks in reversing the monetary policy measures such as Quantitative Easing, started during the financial crash of 2008. The wrong timing or strength of action has the potential to destabilise financial markets and hence economies going forward.

- **UK Economy**

Economic growth in 2018 started off weak but then rose strongly during the year with 0.4% and 0.6% increases in the last two quarters. However growth in the last quarter is expected to weaken significantly. CPI Inflation fell from 3.1% in November 2017 to 2.1% in December 2018, with the Monetary Policy Committee (MPC) forecasting inflation will still be marginally above its 2% inflation target (at about 2.1%) two years ahead. Wage inflation in excess of 3% is forecast to remain as employers are now having major difficulties filling job vacancies with suitable staff, thus adding to inflationary pressures within the UK.

What will happen to the UK Economy, Inflation and Interest Rates in 2019 **will be driven by Brexit.** The MPC in November 2018 again stated that increases in Base Rate would be gradual and rise to no more than 2.50% in ten years' time. However at the same time indicated there is so much uncertainty around the Brexit outcome that the next move in interest rates could be up or down due to the following scenarios:

~ **Down**: To stimulate the Economy, if there is significant fall in Growth as a result of a disorderly Brexit.

~ **Up**: To curb rise in inflation from a devaluation of sterling as a result of a disorderly Brexit. (Resulting from an increase in import prices and more expensive UK goods replacing cheap imported goods).

With the recent Brexit deal defeated on 15 January 2019, it is unclear how the situation will move forward. It is highly likely that any revised deal will not obtain full agreement by the UK and the EU before 29 March 2019, in which case the withdrawal date is likely to be pushed back to a new date with the uncertainty this will cause continuing.

In spite of this uncertainty, markets are forecasting rates to **increase during 2019/20 in May 2019 and then again in February 2020, ending the year at 1.25%.** This increase is expected to continue with Base Rates of 2% predicted by February 2022. This forecast is however on the assumption that a Brexit deal is agreed by both the UK and the EU.

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term borrowing rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward.

- **US Economy**

The US continues its policy of massive easing of fiscal policy. This has led to strong growth (over 3%) and an upturn in inflationary pressures. Strong employment and low unemployment led to an upturn in wage inflation of 3.2% in November 2018. The Fed increased interest rates 8 times in 2018 reaching 2.5% with further increases due in 2019 to bring inflation down to its 2% target. There are investor fears however over the speed and level of increase in rates that may cause the US recession as a result. Stock markets around the world have fell as a consequence of these fears and the trade war between the US and China.

- **Eurozone**

Growth in the Eurozone is expected to be nearly 2% for 2018, but the forecast for further growth is unclear. The ECB ended its Quantitative Easing (QE) programme in December 2018 and is only forecasting inflation to be a little below its 2% top limit for the next 3 years, so a predicated increase in rates in late 2019 will be difficult to justify.

2.10.3. A more detailed view of the current economic outlook is contained within **Annex D** to this report, which includes a timetable of the Brexit process.

2.10.4. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to continue to remain low during 2019/2020 (peaking at 1.25%) but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018/19, rising and falling within the year. Brexit announcements have added to this volatility, with rates dipping to historical lows before Christmas when the Brexit vote was postponed. Internal borrowing strategies need to be reviewed if opportunities to lock into these low rates arise.

- There will remain a cost of carry to any new long-term borrowing taken that causes a temporary increase in cash balances as this position will incur a revenue loss between borrowing costs and investment returns. Although this cost of carry has been at recent lows given the dip in borrowing rates.

2.11. Long Term Borrowing Strategy 2019/2020

2.11.1. In view of the above forecast for interest rates the Council's borrowing strategy will be based upon the following information.

- Long term rates are difficult to predict for reasons already stated. They are forecast to rise gradually over 2019/20 by around 0.20% to 0.30% starting from current levels of 1.20% to 2.90%. At the time of writing suggested target rates for taking borrowing are as follows:

Period	Target Rate
50 Years	2.70%
25 Years	2.90%
10 Years	2.50%
5 Years	2.00%

- The Council's Long Term Borrowing Maturity Profile as at 1st March 2018 can be seen as **Annex E**. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 19 years and 34 years, then after 45 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.

- Market loans and LOBO[5] loans may be available at rates below PWLB rates. However an appropriate balance between PWLB and market debt should be maintained in the debt portfolio.

- Short term borrowing (up to 10 years) from the money market or other local authorities, at investment level rates, will be an available option.

[5] A LOBO is a 'Lender's Option, Borrowers Option' money market loan, whereby the Lender has the option to change the rate of a loan after a designated fixed period of time and the Borrower (LCC) has the option to accept this new rate or repay the loan. The fixed period of time is typically for 1 to 20 years and the total length of the LOBO is typically for 50 to 70 years.

2.11.2. Given the factors detailed above, the following **borrowing strategy** will be adopted for 2019/20:

The Council will take new borrowing from the PWLB in all periods with the aim of achieving an even spread of maturity profile and keeping an increase in the average cost of the Council's debt to a minimum. Target levels will be monitored and timing of borrowing taken will coincide with any reduced rate opportunity below the target levels identified.

Consideration will be given to borrowing market loans or LOBOs, to fit into the above maturity strategy, in order to take advantage of the lower rates offered on these loans. This proportion limited to no more than 10% of total external borrowing for each of market loans and LOBOs.

Short term borrowing from the money markets or other local authorities will be considered if appropriate.

Borrowing in advance of need will be undertaken during the year if considered appropriate following the Council's policy as detailed in 2.7 above.

2.11.3. To support the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate borrowing actions, including debt rescheduling if appropriate, will be taken in response to any sharp rise or fall in long and short term interest rates occurring throughout the year.

2.12. Investment Strategy 2019/2020

2.12.1. Bank Rate is forecast to increase twice to 1.25% from 0.75% by the end of 2019/2020. The risk to this forecast is difficult to predict given the uncertainty over the final terms of Brexit.

2.12.2. The Council's investment priorities for its treasury investments are:

- **the security of capital and**
- **the liquidity of its investments**

The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and hence has a low risk appetite for placing investments.

2.12.3. All Investments will be made in accordance with the Council's Annual Investment Strategy for Treasury Investments, as outlined in Section 3 of this report and with the institutions identified in the Council's approved counterparty investment list.

Interest Rate Exposure -Investments

2.12.4. As a general guide, term deposits are usually at a fixed rate of interest, whereas amounts invested on call (to maintain sufficient liquidity in the investment portfolio) are usually at variable rates of interest. Fixed investments of up to 2 years are considered acceptable to good quality counterparties, limits permitting, where above market rates are achievable and sufficient liquidity is available, as a way of enhancing investment return. In a forecast rising interest rate scenario, fixed deposits should be pegged to coincide with the forecast increase periods at market levels. There are no upper limits set to variable rate investments.

Liquidity

2.12.5. Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Council's objectives. In this respect, the Council will seek to maintain liquid short-term deposits of at least **£25m** available within a week's notice.

2.12.6. The Council's investment level is forecast to be around **£210 million** net of Pension Fund cash in 2019/20, of which around **£100 million** can be identified as 'core' balances which will be available to invest for longer periods of investment. The remaining balance of cash is cash-flow driven.

Performance

2.12.7. The target investment return for investments for 2019/20 is the weighted 7 day/3 month LIBID benchmark that reflects the risk parameters of the investment portfolio. This is a relative benchmark which moves with the markets, but as an indication the benchmark rate at 31st December 2018 was 0.63%.

2.12.8. The investment performance will also be compared against benchmarking data provided by both CIPFA and Link Asset Services.

Investment Strategy

2.12.9. Given these factors above, the following **investment strategy** will be adopted for 2019/20:

For the element of the Council's investment portfolio that represents 'core' balances, investments will be made in all periods of 3 months to 2 years, to acceptable counterparties, to lock into rates in excess of the predicted base rate level. The Council will avoid locking into longer term deals (beyond 1 year) while investment rates are down at historically low levels and forecast to rise, unless exceptionally attractive rates are available which make longer term deals worthwhile. Extensive use of Bank Business Reserve Accounts and Money Market Funds[6] will be made, that offer returns close to or in excess of base rate level, for the Council's 'core' cash and cash flow generated balances.

Investment in Certificates of Deposit[7], Treasury/LA Bills[8], Dated Bonds held to maturity[9] and Repo[10] will also be considered where appropriate.

Short dated deposits (overnight to 1 month) will also be made for the Council's cash-flow generated balances in order to benefit from compounding of interest.

2.12.10. In addition to the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate investment actions will be taken in response to any sharp rise or fall in long and short-term interest rates occurring throughout the year.

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[6] Pooled investment vehicles offering returns equivalent of up to 1 month cash deposits whose assets comprise of cash type investments such as Certificates of Deposit, Commercial Paper and Cash Deposits.

[7] A bearer instrument which certifies that a sum of money has been deposited with the bank issuing the certificate at a fixed yield and on the stated maturity date the deposit is repaid with interest. The maturity length is typically from 1 month to 1 year.

[8] Short term securities issued by HM Treasury on a discounted basis i.e. issued below 100, with 100 being received on maturity with the difference equalling the interest return.

[9] A debt security instrument that governments, supranationals, and companies sell to investors (issue) to finance a variety of projects and activities. The investor buys the bond and receives fixed or variable coupons (interest) in return. Bonds can be dated (mature/repayable on a certain date) or non-dated (never mature). Bonds are tradeable (can be bought and sold) and hence the price of a bond fluctuates over its life. The total yield (return) on a bond for investor equals the npv of the cashflows (e.g. price paid, coupons received, nominal value received on maturity).

[10] A Repo is a form of securitised lending based on a Global Master Repo Agreement (GMRA 2000). Collateral is pledged against each loan made under a Repo Agreement, usually consisting of Gilts or Treasury Bills or acceptable Corporate Bonds. This collateral passes to the Lender in the case of a default of the loan with the original Counterparty.

2.13. Short Term (Cash Flow) Borrowing Strategy 2019/2020

2.13.1. During 2019/2020, when short term interest rates for temporary borrowing are significantly lower than yields earned on the Council's Call Accounts and Money Market Funds, then if required for cash flow purposes, temporary short term borrowing will be taken instead of drawing on investments, in order to minimise the loss of interest from withdrawing funds at higher rates.

2.14. Other Current Treasury Issues

2.14.1. Money Market Funds (MMFs)

The Money Market Fund Regulation was published in June 2017, proposing reform to the current structure of MMFs in Europe. This reform applied to **new funds** with effect from **21st July 2018** and to **existing funds by no later than 21st January 2019 which has now been extended to March 2019 due to some regulatory issues.**

Two types of MMF will be formed:

- **Short Term MMFs**- Short term funds that follow a maximum Weighted Average Maturity (WAM) of 60 days and a maximum Weighted Average Life (WAL) of 120 days.
- **Standard MMFs** – Longer dated funds that follow a WAM of 6 months and a maximum WAL of one year.

Three structural options will be formed:

- **Public Debt Constant Net Asset Value (CNAV) MMFs** –must invest 99.5% of assets into government instruments or cash.
- **Low Volatility Net Asset Value (LVNAV) MMFs** – permitted to maintain a constant dealing NAV provided that certain criteria is met.
- **Variable Net Asset Value (VNAV)** – Funds which price their assets using market pricing and therefore offer a fluctuation dealing NAV.

The Council will use **CNAV** and **LVNAV** Short Term MMFs with an **AAA** credit Rating that are denominated in Sterling and regulated within the EU. **VNAV** MMFs will only be used following an appropriate risk assessment being undertaken.

2.14.2. Accounting Arrangement for Financial Instruments –IFRS 9

International Financial Reporting Standard 9 (IFRS9) introduces new accounting arrangements for financial instruments from 1st April 2018. Some of the changes have the potential to impact on the Council's General Fund, particularly the requirement to charge movements in the fair value of certain financial instruments to the Revenue account, and to take a more forward looking approach to impairment losses by calculating an Expected Credit Loss for each investment held. To ensure that the Council is protected from any adverse revenue impacts which may arise from complying with the new requirements, the accounting implications of new transactions will be carefully assessed before they are undertaken.

2.14.3. Long Term Borrowing – School Loans Scheme 2019/20

Long Term Borrowing from the PWLB on behalf of schools as part of the schools loan scheme will be undertaken throughout 2019/2020 as and when required and on terms requested by schools.

2.14.4. Policy on the Use of External Service Providers

The Council uses Link Asset Services Ltd as its external treasury management advisers.

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. 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.

2.14.5. Pension Fund Cash

In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which were implemented on 1st January 2010, effective from 1st April 2010, an agreement has been drawn up governing the procedures that were already in place for the pooling of Pension Fund cash with Council balances for investment.

3. <u>ANNUAL INVESTMENT STRATEGY FOR TREASURY INVESTMENTS 2019/2020</u>

3.1. In accordance with Section 15(1) of the Local Government Act 2003, 3rd Edition, issued 2nd February 2018, Lincolnshire County Council has adhered to the **Guidance on Local Government Investments** issued by the Secretary of State, and as such has produced its **Annual Investment Strategy for Treasury Investments for 2019/2020** (the 'Treasury Strategy') detailed below. The Government have extended the meaning of 'investments' in this Guidance to include both **financial (treasury related)** and **non-financial (non-treasury related)** investments. Non-financial investments include the purchase of income yielding assets for the purpose of making a return and also the making of loans to 3rd parties for strategic service reasons. This Annual Investment Strategy applies to the Councils **treasury related investments only**. The investment strategy dealing with the Council's non-treasury related investments and loans will be included in the Capital Strategy 2019/2020 which will be considered along with the Council Budget for 2019/2020.

3.2. The Council’s treasury investment priorities will be **security first, liquidity second, and then return.** The intention of the Treasury Strategy is to provide security of investment and minimisation of risk. The aim of the Treasury Strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

3.3. The Council's surplus funds will be invested in 2019/20 according to the Secretary of State's definition of **Specified** and **Non-Specified investment** categories as detailed below.

Characteristics/Type	Counterparty Categories
Specified Investments	
• Sterling deposits. • Up to and including one year. • Offering high security / high yield. • Fixed, callable or forward term deposits as appropriate[11], Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	• UK Government/ Supranational/ Multilateral Development Banks. • Local Authorities. • Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Specified Investments** (Includes Banks, Building Societies, Corporates, and Money Market Funds CNAV, LVNAV).
Characteristics/Type	**Counterparty Categories**
Non-Specified Investments	
• Sterling deposits. • Period greater than 12 months up to a maximum of 2 years. • Higher risk than Specified Investments. • Fixed, callable or forward term deposits as appropriate, Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	• UK Government/ Supranational/ Multilateral Development Banks. • Local Authorities. • Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Non-Specified Investments** (Includes Banks, Building Societies, Corporates and Enhanced Money Market Funds VNAV).

3.4. For assessing its minimum acceptable credit rating criteria for both its specified and non-specified investments it uses the **creditworthiness service** provided by Link Asset Services, its treasury management advisor. This service has been progressively enhanced and now uses a sophisticated modelling

[11] Fixed Deposit : Investment fixed for specific term at specific rate.
Callable Deposit : Investment whereby borrower has option to pay back deposit at specific intervals.
Forward Deposit : Investment whereby period, rate and amount are agreed in advance of a future date. The forward period plus the deal period to be within the maturity limit allowed.

approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies.
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings.

3.5. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of **colour coded bands** which indicate the relative creditworthiness of counterparties

3.6. **Annex F** details the definitions of Sovereign & Long Term Credit Ratings, Credit Default Swaps, Credit Watches and outlooks and MMF ratings.

<u>Additional Minimum Rating Criteria/Limits in Place –set by Council to Match its Risk Appetite for Treasury Investments</u>

3.7. In addition to the Link's creditworthiness recommendations, the Council has also set further minimum credit requirements that restrict the number of acceptable counterparties further and is therefore deemed prudent.

- **A minimum Sovereign (Country) Rating from a minimum of two rating agencies of AA-.***
- **A minimum Long Term Rating from a minimum of two rating agencies of A or equivalent.****
- **A limit of a maximum of no more than 20% of total investments to be placed with any one bank/group, corporate or building society sector - to ensure diversification of investments. (With exception of Part UK Nationalised Banks*** which are deemed to bear same low risk as UK Government).**

  ***<u>Sovereign Rating</u>**
  Credit Rating Agencies have removed the effect of Sovereign Support from an entities individual rating. This now makes it more important to focus solely on the ratings of an entity itself within an investment strategy. A minimum Sovereign limit of AA- is in line with Link's creditworthiness policy and will allows greater depth and diversification to the Council's Counterparty list, while still maintaining the tenets of security and liquidity.

** Long Term Rating

This minimum Long Term Rating has been reduced to A from A+ for 2019/20 onwards. The definition of an A rating is 'High Credit quality with low expectation of credit risk, with a strong capacity for timely payment of financial commitments'. Ratings can also be assigned a "+" or "–" to denote the relative status within a rating category, but the category still has the same definition regardless of a "+" or "-". Moving from A+ to A minimum limit allows a greater number of Counterparties on the Council's Authorised Lending List with a 6 Month/£15m limit, in accordance with Council Investment policy. (e.g. Barclays, Santander and Nationwide Building Society). It is felt that the benefits of this move far outweigh the moderately extra risk that would be incurred, including the opportunity to improve investment return. For reference, Link's credit worthiness matrix uses a minimum Long Term Rating level of A-.

*** Nationalised or semi nationalised UK Banks:-

As a result of the banking crisis which started in 2008, Governments across the world had to inject capital directly into banks to support their capital ratios and to avoid failure of financial institutions. Several banks were nationalised or part nationalised in this way.

These nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by Councils to identify banks which are of high credit worthiness. As they are no longer separate institutions in their own right, their individual ratings, which assess their stand-alone financial strength, are impaired. However, it is considered that institutions that have been nationalised or part nationalised effectively take on the creditworthiness of the Government itself and as such UK nationalised or semi nationalised banks are included within the Councils acceptable investment criteria and will continue to do so as long as they remain semi nationalised. At the time of writing, the only UK Bank falling into this category is now the Royal Bank of Scotland Group, which includes National Westminster Bank.

Barclays Bank plc

Barclays Bank plc is the Councils banker at present and therefore the Council have an intra-day financial exposure to Barclays bank on a daily basis. This intra-day exposure will not be included with limits set for Barclays as part of the Annual Investment Strategy. When it is not financially viable to make an investment, a cash balance will be left at the bank overnight, so long as Barclays Bank remains on Link's recommended Counterparty list.

3.8. **Annex G** summarises the duration and amount limits set for both the specified and non-specified investments based on the credit methodology outlined above. The County Finance Officer has delegated responsibility to produce an '**Approved Lending List**' of acceptable counterparties to whom the Council will lend its surplus cash derived from this criteria.

3.9. The credit ratings of counterparties are monitored on an ongoing basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings, the Council will be advised of information in movements in CDS prices of Counterparties against the iTraxx benchmark[12] and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or suspension from the Council's lending list.

3.10. The Council is satisfied that this service gives an improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources. However sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and other market information, from various sources such as the internet, portals, brokers, government, CIPFA etc.

3.11. In line with the Prudential Code Indicator, the maximum amount of total investment that can be held in treasury investments over 12 months at any one time is £40 million, as shown in Annex A. This limit reflects a prudent proportion of the Council's estimated level of core cash balances available to invest for longer periods. The Executive Councillor with responsibility for Finance will be informed on any occasion when investments are lent for over 12 months.

Additions to Non-Specified Investment List

3.12. Proposals to invest in any other non-specified investment will be referred to the County Finance Officer for approval after first seeking the advice of the Authority's Treasury advisors, Link Asset Services Ltd. If approved by the County Finance Officer, a recommendation for the change to the Annual Investment Strategy will be sought from the Executive Councillor with responsibility for Finance.

[12] iTraxx Senior Financials Index that measures the "average" level of the most liquid financial CDS prices in the CDS market.

Liquidity of Treasury Investments

3.13. In determining the amount of funds that can prudently be committed for more than 12 months, consideration will be given to the following factors:

- Long Term Cash Flow Forecasts of the Council - 3 years ahead showing:
  - Projected core cash balances over the term of proposed investment.
  - Foreseeable spending needs over the term of proposed investment.
  - Level of provision for contingencies.
  - Acceptable level of reserves.

Training Needs for Treasury Management Staff / Members with Responsibility for Treasury Management

3.14. The importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them are recognised by the Council and it is the responsibility of the S151 Officer to implement the necessary arrangements to ensure this takes place.

3.15. The Council seeks to appoint individuals who are both capable and suitably experienced and also will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

3.16. All treasury management staff are encouraged to take any suitable training in treasury management provided by CIPFA, Link Asset Services Ltd or other relevant market participant. Both the Treasury Manager and Treasury Officer for the Council have successfully gained the CIPFA/ACT qualification in International Treasury Management (Public Finance) (Cert ITM-PF).

3.17. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny have access to training relevant to their needs and those responsibilities.

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

* Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act

* Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

* Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

* Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic

* Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it

* Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding

Compliance with the duties in section 149 may involve treating some persons more favourably than others

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no equalities implications that need to be taken into account by the Executive Councillor.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no implications that need to be taken into account by the Executive Councillor.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no implications that need to be taken into account by the Executive Councillor.

3. Conclusion

The Treasury Management Strategy, determining appropriate borrowing and treasury investment decisions, and the Annual Investment Strategy, outlining the Council’s policy for treasury investments, has been set for 2019/20 in light of the anticipated economic environment and movement of interest rates for the year ahead. These strategies reflect the new requirements of the CIPFA Code recently published in 2017, and new MHCLG Guidance on Local Government Investments issued in February 2018. Based on officer recommendation, this report is presented to the Executive Councillor with responsibility for finance for approval in order to comply with Financial Regulation

4. Legal Comments:

The Council’s Financial Regulations require the Council to annually produce a Treasury Management Strategy setting out expected treasury activities in accordance with the requirements of the CIPFA Code of Practice. The strategy statement must be submitted to the Executive Councillor with responsibility for finance for approval prior to the commencement of each financial year.

The Financial Regulations also require the production of an Annual Investment Strategy to ensure that Section 15 (1) of the Local Government Act 2003 is complied with, that is that all authorities must “have regard to guidance on investment issued by the Secretary of State” when investing their surplus cash.

The strategy must be approved by the Executive Councillor with responsibility for finance.

This report enables the Council to meet its legal obligations in accordance with the Financial Regulations. The recommendations are lawful and within the remit of the Executive Councillor with responsibility for finance.

5. Resource Comments:

This report sets out the Treasury Management Strategy and Investment Strategy for Treasury Investments of the Council for the year ahead. The Council requires a Treasury Management Strategy and Investment Strategy for Treasury Investments for the year ahead in order to comply with Financial Regulations.

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

The Overview and Scrutiny Management Board is responsible for monitoring and scrutiny of the operation of the treasury management policies and practices and as such will consider this report at its meeting on 28 February 2018. Comments from the Board will be passed on to the Executive Councillor for Resources and Communications prior to making a decision.

d) Have Risks and Impact Analysis been carried out?

Yes

e) Risks and Impact Analysis

Risk & Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2017. A Risk Register which details the main risks for Treasury Management has been completed and is reviewed annually. Both the TMPs and the Risk Register are held in the Treasury Files held on IMP at County offices.

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Prudential Indicator Table 2017/18 to 2021/22
Appendix B	Revenue Provision for the Repayment of Debt Policy (Minimum Revenue Provision)

Appendix C	Interest Rate Forecasts 2019-2022
Appendix D	Economic Background - Link Asset Services Ltd
Appendix E	Long Term Borrowing Maturity Profile at 28.02.2019
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads
Appendix G	Duration, Limits & Minimum Credit Criteria 2019/20

8. Background Papers

The following Background Papers within the meaning of section 100D of the Local Government Act 1972 were used in the preparation of this Report.

Document title	Where the document can be viewed
Council Budget 2019/20 - 22nd February2019	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury & Financial Strategy Section, Finance & Public Protection

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