Classification: Part 1 – Public
Key Decision: No

Gravesham Borough Council

Report to:	Finance and Audit Committee
Date:	18 February 2018
Reporting officer:	Director (Corporate Services)
Subject:	Treasury Management Strategy, the Annual Investment Strategy and the Minimum Revenue Provision Policy

PURPOSE AND SUMMARY OF REPORT:

To consider the Treasury Management Strategy, the Annual Investment Strategy and the Minimum Revenue Provision Policy.

RECOMMENDATIONS:

The Finance & Audit Committee recommends to the Full Council that:

1) The Treasury Management Strategy for 2018/19 be agreed.

2) The Authority's Prudential & Treasury Indicators be determined as set out in the report.

3) Delegated authority be given to the Director of Corporate Services, in consultation with the Chair of the Finance and Audit Committee, to amend the prudential and treasury indicators as necessary as a result of the budget approved by Full Council on 27th February 2018.

4) The Annual Investment Strategy (AIS) for 2018/19 be agreed.

5) The application of the Asset Life (Equal Instalments Methodology) for Minimum Revenue Provision (MRP) calculation on all new capital expenditure be approved for 2018/19 and beyond in accordance with the Authority's Capital Programme.

1. INTRODUCTION

1.1 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 counterparties or instruments commensurate with the Council's low risk appetite, providing liquidity initially before considering investment return, subject to the anticipated surplus monies forecast over time and the need for those surplus monies to be available to meet current liabilities.

1.2 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 to 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 This Authority defines its treasury management activities as: "The management of the 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".

2. REPORTING REQUIREMENTS

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

- **Prudential and treasury indicators and treasury strategy** – The first, and most important report covers

  a. The capital plans (including prudential indicators)

  b. A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)

  c. A treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators and

  d. An investment strategy (the parameters on how investments are to be managed)

- **A mid-year treasury management report** - updating members with the progress of the capital position, amending prudential indicators as necessary and whether the treasury activity is meeting the strategy or whether any policies require revision.

- **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

2.3 **Capital Strategy** - In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:-

- a high-level 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

2.4 The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

2.5 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured

3. TREASURY MANAGEMENT STRATEGY 2018/19

3.1 The strategy for 2018/19 covers two main areas:

- Capital Issues

  a. The capital plans and the prudential indicators

  b. The minimum revenue provision (MRP) strategy

- Treasury Management Issues

  a. The current portfolio position

  b. Treasury Indicators: which will limit the treasury risk and activities of the council

  c. The prospects for interest rates

  d. The borrowing strategy

  e. Policy on borrowing in advance of need

  f. Debt rescheduling

  g. The annual investment strategy 2018/19

  h. Credit worthiness policy

  i. Policy on use of external service providers

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

4. TRAINING

4.1 The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged during the course of 2018/19.

4.2 The training needs of treasury management officers are periodically reviewed.

5. TREASURY MANAGEMENT CONSULTANTS

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

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

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

6. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 TO 2020/21

6.1 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.

6.2 **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. Members are asked to approve the capital expenditure forecasts.

6.3 Given where the authority is in the annual budget setting process, the capital estimates below are based on the latest information available. Members are asked to approve the capital expenditure forecasts and also to delegate authority to the Director (Corporate Services) in consultation with the Chair of the Finance and Audit Committee to amend the forecasts and other indicators as necessary in line with the authority's budget which will be discussed and approved by Full Council on 27th February 2018:

Capital Expenditure	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m/**	**2020/21 Estimate £m**
Non-HRA	13.507	8.829	8.054	0.845	0.845
HRA	8.328	13.570	13.152	13.685	11.093
Total	**21.835**	**22.399**	**21.206**	**14.530**	**11.938**

6.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Non-HRA	13.507	8.829	8.054	0.845	0.845
HRA	8.328	13.570	13.152	13.685	11.093

Total	**21.835**	**22.399**	**21.206**	**14.530**	**11.938**
Financed by:					
Capital receipts	1.208	0.203	0.830	0.369	0.369
Grants/Contributions	2.465	3.070	1.079	0.371	0.371
Reserves	0.624	6.383	5.652	2.065	0.105
Revenue	2.172	0.000	0.000	0.000	0.000
Major Repairs Reserve	5.370	7.743	7.145	6.185	1.457
Net financing need for the year	**9.996**	**5.000**	**6.500**	**5.540**	**9.636**

6.5 **The Council's Borrowing Need (the Capital Financing Requirement).** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above (that has not been immediately paid for) will increase the CFR.

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

6.7 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 and so the Council is not required to separately borrow for these schemes. The Council does not have such long term liabilities.

6.8 The Finance and Audit Committee is recommending to Council to approve the CFR projections below:

	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Financing Requirement					
CFR – General Fund	20.375	22.987	28.935	28.240	27.651
CFR – HRA	92.169	88.665	84.564	85.366	89.583
Total CFR	**112.544**	**111.652**	**113.499**	**113.606**	**117.234**
Movement in CFR	**6.779**	**(0.893)**	**1.848**	**0.107**	**3.628**

Movement in CFR represented by					
Net financing need for the year (above)	9.996	5.000	6.500	5.540	9.636
HRA contribution to loan repayment	(3.024)	(3.504)	(4.101)	(4.738)	(5.419)
Local Authority Mortgage Scheme	0	(2.000)	0	0	0

(LAMS)					
Less MRP and other financing movements	(0.193)	(0.389)	(0.551)	(0.695)	(0.589)
Movement in CFR	**6.779**	**(0.893)**	**1.848**	**0.107**	**3.628**

7. MINIMUM REVENUE PROVISION POLICY

7.1 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).

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

7.3 For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure the Council can use the following option.

- **The Regulatory Method**

  Under the previous MRP regulations MRP was set at a uniform rate of 4% of the adjusted General Fund Capital Financing Requirement (CFR) i.e. adjusted for "Adjustment A" on a reducing balance method. Adjustment A was introduced to coincide with changes to the capital finance system on 1 April 2004 to ensure local authorities were not adversely affected financially by these changes. The Capital Financing Requirement is a measurement of the council's underlying need to borrow.

7.4 For expenditure incurred after 1 April 2008 which does not form part of the Authority's Supported Capital Expenditure, the Council uses the following prudent approach to ensure that repayments are made over the life of the asset.

- **Asset Life (Equal Instalment Method)**

  This option relates to new unsupported borrowing. It allows the use of a simple formula to calculate a series of equal amounts chargeable over the estimated life of the asset. The formula also allows the Authority to make voluntary extra provisions in a year.

7.5 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

7.6 If assets are transferred between funds, where the transfer results in an increase in the General Fund CFR, it will be considered whether it is prudent to make an MRP provision on the higher CFR in subsequent years.

7.7 This authority has participated in the cash backed Local Authority Mortgage Scheme (LAMS) for the last five years. The mortgage lenders required a five year deposit for the local authority to match the five year life of the indemnity. At the point the deposit was placed with the mortgage lender it was treated as capital expenditure and a loan to a third party and as a result the Capital Financing

Requirement (CFR) increased by the total indemnity (£2m). The deposit was returned on 31 January and therefore the CFR has reduced accordingly. As this was a temporary (five years) arrangement and the funds were returned in full, there was no need to set aside prudent provision to repay the debt liability in the interim period, so there was no MRP application.

8. BORROWING

8.1 The capital expenditure plans set out in Section 6 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this 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.

8.2 **The current portfolio position** - The Council's treasury position as at 31 March 2017, with forward projections, is summarised in the next table. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any under or over borrowing.

	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
External Debt					
Debt at 1 April	104.781	101.677	98.093	93.911	94.632
Expected Change in Debt	(3.104)	(3.584)	(4.182)	721	(3.783)
Actual gross debt as at 31 March	101.677	98.093	93.911	94.632	90.849
The Capital Financing Requirement	**112.548**	**111.652**	**113.499**	**113.606**	**117.234**
(Under)/Over Borrowing	**(10.871)**	**(13.559)**	**(19.588)**	**(18.974)**	**(26.385)**

8.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

8.4 Members will note that from the above table that an under borrowed position is being maintained for 2016/17 to 2020/21.

8.5 The Director (Corporate Services) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

9. TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

9.1 **The Operational Boundary -** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt (including HRA Settlement)	125.000	125.000	128.700	129.900
Other Long Term Liabilities	1.500	1.500	1.500	1.500
Total	**126.500**	**126.500**	**130.200**	**131.400**

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

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

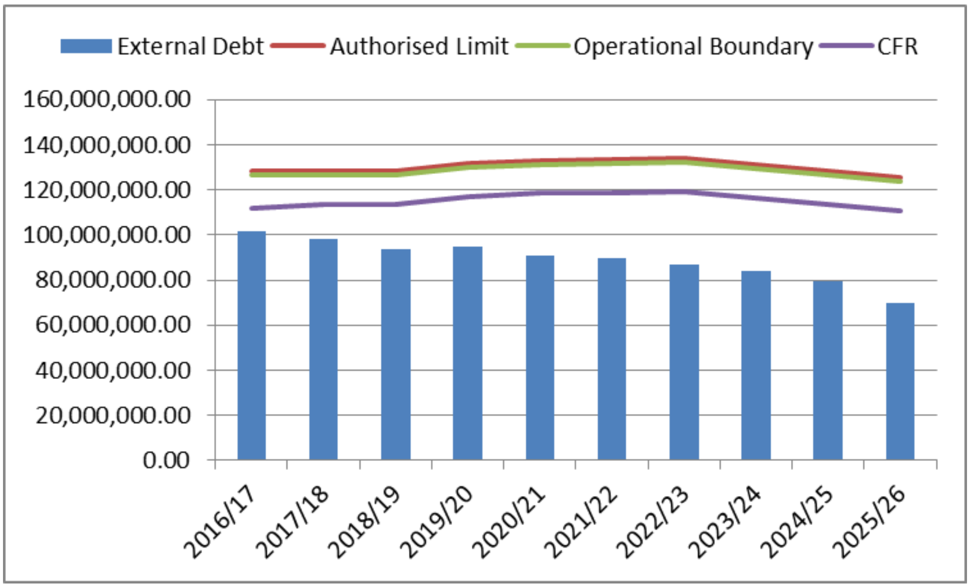
- The Finance and Audit Committee is asked to recommend to Council the following Authorised Limit:

Authorised limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt (including HRA Settlement)	126.500	126.500	130.200	131.400
Other Long Term Liabilities	1.600	1.600	1.600	1.600
Total	**128.100**	**128.100**	**131.800**	**133.000**

9.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self financing regime. This limit is currently:

HRA Debt Limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
HRA Debt Cap	117.900	117.900	117.900	117.900
HRA CFR	88.665	84.564	85.366	89.583
HRA Headroom	29.235	33.336	32.534	28.317

9.4 The graph below is a pictorial representation of the Council's Operational and Authorised limits against the Capital Finance Requirement and External Debt levels for the period 2016/17 to 2025/26.



9.5 **Affordability Prudential Indicators** – Within the framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators

9.6 **Ratio of financing costs to net revenue stream** - This indicator identifies the trend in the cost of capital ie borrowing costs as a percentage of the budget requirement for both the General Fund and the HRA.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non HRA	2.06%	6.45%	6.71%	9.92%	9.53%
HRA	22.01%	23.21%	25.09%	27.84%	28.52%

9.7 **HRA Ratios** – There are two further affordability ratios in relation to the HRA. The first which identifies the trend in the HRA CFR as a percentage of the HRA revenue income stream and a second indicator which assess debt per HRA dwelling.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA CFR £m	92.169	88.665	84.564	85.366	89.583
HRA Debt Cap	117.900	117.900	117.900	117.900	117.900
HRA Revenues	29.107	28.282	27.893	27.836	28.894
Ratio of debt to revenues %	31.58	31.90	32.98	32.60	32.25

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA CFR	92,169,042	88,665,042	84,564,042	85,365,625	89,583,410
Number of HRA dwellings	5,672	5,681	5,662	5,649	5,651
Debt per dwelling	16,250	15,607	14,935	15,111	15,853

10. PROSPECTS FOR INTEREST RATES

10.1 The Council has appointed Link Asset Services as its treasury advisor and part of the their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

10.2 Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

11. CURRENT ECONOMIC OUTLOOK

11.1 Link Asset Services Treasury Solutions are this Council's appointed treasury advisors and the following summary on the economic climate is provided by them.

11.2 World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

11.3 In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US.

11.4 Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

11.5 The key issue now is that the period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks.

11.6 After the UK surprised with strong economic growth in 2016, growth in 2017 has been disappointingly weak. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

11.7 While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.)

11.8 At its meeting on 2 November, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

11.9 Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start increasing rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

11.10 Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

12. THE BORROWING STRATEGY

12.1 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.

12.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Director (Corporate Services), will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

12.3 Any decisions will be reported to the Finance and Audit Committee at the next available opportunity.

12.4 **Treasury Management Limits on Borrowing Activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

12.5 The authority's treasury indicators and limits are detailed below:

	2018/19	2019/20	2020/21
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

Maturity Structure of fixed interest rate borrowing 2018/19		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%
Maturity Structure of variable interest rate borrowing 2018/19		
	Lower	***Upper***
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

13. POLICY ON BORROWING IN ADVANCE OF NEED

13.1 The Council will not borrow more than, or in advance of its need, purely in order to profit from the investments 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.

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

14. DEBT RESCHEDULING

14.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

14.2 The reasons for rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhancing the balance of the portfolio

14.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt permanently as short term rates are likely to be lower than rates paid on current debt.

14.4 Any rescheduling will be reported to the Finance and Audit Committee, at the earliest meeting following its action.

15. NNUAL INVESTMENT STRATEGY 2017/18

15.1 **Investment Policy** - The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

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

15.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both micro and macro basis in relation the the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

15.5 Investment instruments identified for use in the financial year are listed in Appendix 1 under the 'specified' and 'non-specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

16. CREDITWORTHINESS POLICY

16.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

16.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands.

Colour/ long term rating	Maximum Period of investment
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (nationalised or semi nationalised UK Banks)
Red	6 Months
Green	100 days
No Colour	Not to be used

16.3 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

16.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occassions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

16.5 All credit ratings will be monitored on a daily basis by officers within the Finance Department. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services 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 the Credit Default Swap market against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

16.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to support its decision making process.

17. COUNTRY, GROUP AND COUNTERPARTY LIMITS

17.1 In previous Treasury Management Strategy Statements, it was stated that the Council would only use approved counterparties from countries with a minimum sovereign rating of AAA, as determined by at least two of the three rating agencies (Fitch, Moody's or Standard and Poor's). Although the sovereign debt crisis has eased, and whilst countries within the Eurozone have made progress with their economies to return them to growth or to reduce the degree of recession, the Director of Corporate Services recommends that this remains in place during 2018/19. The list of countries that currently qualify using the credit criteria as at the date of this report are shown in Appendix 2. Officers will amend this list during the year should ratings change in accordance with this policy.

17.2 Previous Treasury Management Strategy Statements recognised that this policy was taking a very prudent approach to risk in relation to counterparty sovereignty rating given the economic climate but recognised that it could create significant difficulties for the Authority were the sovereign credit rating of the UK to be downgraded from AAA. As a result previous Treasury Management Strategy Statements recommended that the UK should be an exemption from the above limits and that officers would continue to place investments with counterparties within the UK provided that the sovereign rating remained above AA-, in consultation with the Section 151 Officer, who (under the Constitution) can take all necessary action in respect of the management of the Council's investments to ensure their security is maintained.

17.3 However it was agreed as part of the 2017/18 Treasury Management Strategy Statement that the UK should be exempt from the sovereign rating regime on the basis that our knowledge and understanding is greater for the banks and building societies within UK as opposed to those who are domiciled outside of the UK. Sovereign ratings will still be followed for all non UK institutions and deposits with UK institutions and the duration will still be restricted by the credit ratings as set out in para 17.2.

17.4 To avoid concentration in too few counterparties or countries a suitable approach of spreading investments will continue to be adopted. Link Asset Services suggest that a limit of between 20% and 25% of the investment balance with a group/counterparty is prudent. On this basis it is therefore recommended that the limit of £5 million is maintained subject to this not constituting more than 20% of the overall investment balance at the time the investment is placed.

Country, Group, Counterparty	2018-19 Maximum Proportion of Investment Portfolio or Limit
UK Sovereign	100%
Each non-UK AAA Sovereign	£10 million
• Group Limit • Each counterparty rated green or above using Capita Asset Services credit methodology • Each money market fund rated AAA	£5 million subject to this not constituting more than 20% of the overall investment balance of the Council at the time of placing such investment
Each AAA multilateral/supranational bank and as a group	£2 million
Each bond / gilt / enhanced cash / government liquidity fund rated AAA	£2 million
Non-specified investments over 1 year duration - property funds	£10 million at the time of placing the investment
Non-specified investments over 1 year duration – multi asset funds	£10 million at the time of placing the investment
Non-specified investments over 1 year duration - other	£10 million

17.5 The Government's Deposit Management Account Facility remains the exception to the above limits as this is deemed to be a very secure facility and is therefore unlimited.

18. INVESTMENT STRATEGY

18.1 The Council's treasury management function is currently managed internally within the Council. Cash flow projections are maintained and are used to ensure that investments are allocated to best effect in the light of interest rates.

18.2 The UK Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

Year	Bank Rate Forecast
2017/18	0.50%
2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

18.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Year	
2017-18	0.40%
2018-19	0.60%
2019-20	0.90%
2020-21	1.25%
2021-22	1.50%
2022-23	1.75%
2023-24	2.00%
Later years	2.75%

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

Maximum principal sums invested > 365 days			
	2018/19 **£m**	**2019/20** **£m**	**2020/21** **£m**
Principal sums invested > 365 days	20.000	20.000	20.000

18.5 Whilst the Council has placed £10m with three Property Funds and at the time of writing this report has agreed to invest a further £10m in Multi Asset Funds with a view to holding the funds for the longer term, due to the funds liquidity they are not taken into account for the purposes of the above indicator. The indicator applies to funds invested for a fixed period.

18.6 For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

19. END OF YEAR INVESTMENT REPORT

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

20. SERVICE INVESTMENTS

20.1 The Investment Strategy recognises that the Council may, from time to time, make investment decisions are part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment, rather than a treasury managment investment, and will therefore fall outside of the specified/non specified investment categories.

20.2 At the time of preparing this report the Council had interests in two such service investments:

- Municipal Bonds Agency (MBA) - In January 2015, a report to Cabinet from the then Assistant Director (Finance) outlined proposals by the Local Government Association (LGA) to set up the MBA with the aim that the Agency would be able to provide councils with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB). The Assistant Director (Finance), having liaised with the LGA (and in consultation with the Leader and the Chief Executive), concluded that the Council along with many other local authorities should become a member of the MBA and therefore £20,000 was paid in February 2015 towards the Agency's estimated start-up costs of £1m. It is anticipated that there will, at some point, be a financial return (to be remunerated at commercial rates) for these capital subscriptions to the Agency's establishment costs. The setting up of the MBA continues to progress and a Proof of Concept study is currently being undertaken. Under the Constitution, the Director of Corporate Services has delegated responsibility for the execution and administration of treasury management decisions in accordance with the agreed Treasury Management Strategy. Therefore should the Council have a need to borrow in future then use of MBA (if available at the time) will be considered.

- Commercial acquisitions – To date four commercial properties have been purchased with the sole intention of generating an income stream. This is an alternative approach to investing the Council's cash balances, which are invested in accordance with the Treasury Management Strategy. Such purchases are capital expenditure and therefore sit outside the Treasury Management Strategy.

20.3 Previously the Local Authority Mortgage Scheme (LAMS) was mentioned under this section of the report. The Council launched the LAMS scheme in conjunction with Kent County Council in February 2013. Under the scheme the Council was required to place funds of £2m with Lloyds for a period of 5 years. The £2m deposit was returned to the Council in full on 31 January and therefore is no longer a service investment. However, it should be noted that the Council remains liable for its share of the indemnity until the final mortgage has been held for five years which is estimated to be January 2020. At this point the Council's liability will cease.

21. OTHER TREASURY ACTIVITY

21.1 Following Member approval of the 2016-17 Treasury Management Strategy and a subsequent meeting of the Cross Party Property Acquisition Working Group, investments were made in three managed Property Funds; Lothbury Hermes and CCLA. A presentation from Hermes Property Fund will be given to Finance and Audit Committee at the start of the meeting on 19 February.

21.2 A long term cashflow model continues to be maintained and a summary of this can be found at Appendix 7 and Appendix 8 to this report. Two graphs have been presented following requests made at the previous Finance and Audit Committee. The first shows the current long term cashflow along with key events such as the repayment of the £8 million stock issue loan in May 2020. The current cashflow has been amended, to reflect the changes in the Medium Term Financial Plan and the HRA Business Plan. The second shows the current long term cashflow against that which was presented to the previous Finance and Audit Committee to enable Members to see the movement that has occurred as a result of the changes detailed above.

22. SCHEME OF DELEGATION

22.1 The Treasury Management Scheme for Delegation is outlined in Appendix 3.

23. ROLE OF THE SECTION 151 OFFICER

23.1 The council's Section 151 Officer is the Director of Corporate Services and their role is outlined in Appendix 4.

24. RISK

24.1 Given the nature, size and volume of the transactions involved, Treasury Management continues to remain a high risk area and as such is reflected in the corporate risk register. A summary of the perceived risks associated with Treasury Management is identified below.

Risk Area Identified	Potential Impact of Risk	Mitigation
Interest rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest.	Professional and specialist advice taken on interest rate forecast. Cash flow modelled against anticipated financial forecast. Treasury Management Strategy and Policies.
Cash flow	Unexpected adverse movements of significant sums of money may vary from the cash flow estimated and therefore result in a reduction in investment interest.	Cash flow modelled against anticipated financial forecast.
Risk Area Identified	**Potential Impact of Risk**	**Mitigation**
Sums lost in imprudent investment	Loss of sums invested in institution that is unable to pay its creditors.	Invest in institutions in accordance with Capita Asset Services creditworthiness service and in conjunction with Finance Teams assessment of the various counterparties.
Downgrading of banks and building societies	Loss of sums invested	Invest with the Government's Deposit Management Account Facility if necessary.
Legal and regulatory risk	The council fails to act in accordance with its legal powers	Comprehensive documentation of the organisations legal powers.
Sums lost through fraud, error and corruption	Financial Loss	Proper system of internal controls.

Refinancing borrowing on appropriate terms and conditions.	Higher borrowing costs	Reliable forecasts of maturing loans and capital expenditure to enable the council to negotiate appropriate terms.

25. SECTION 17 OF THE CRIME & DISORDER ACT 1998

25.1 Section 17 of the Crime & Disorder Act 1998 has been taken in account when preparing the Treasury Management Strategy and the Annual Investment Strategy.

26. BACKGROUND PAPERS

26.1 CIPFA Treasury Management in the public services - Guidance Notes for Local Authorities 2011.

26.2 Templates and forecasts provided by Link Asset Services.

APPENDIX 1

Specified and Non Specified Investments

Investments that councils can make are of two types and these are identified in the subsequent paragraphs and table.

Specified Investments offer high security and high liquidity, must be in sterling and have a maturity of no more than a year. Such investments made with the UK government, UK local authorities and town/parish councils automatically count as specified investments.

Non Specified Investments are those investments not meeting the definition of specified investments, which are therefore of greater potential risk. Any investments with a maturity exceeding one year are automatically classed as non specified investments. The criteria for selecting counterparties for longer term investments is the same as that for short term investments i.e. Link Asset Services Durational Colour bands.

All specified and non-specified Investments will be

- Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy
- Subject to the duration limit recommended by Link Assets Services Treasury Solutions at the time each investment is placed
- Subject to a maximum of £30m of cored funds, in aggregate, being held in non-specified investments at any one time (£10m in property funds, £10m in Multi Asset Funds and £10m in other non-specified investments).

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**

	Minimum Credit Criteria	Maximum maturity period
Debt Management Agency Deposit Facility	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds	AAA	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	Liquid
Local authorities	N/A	12 months
Term deposits with banks and building societies	Link’s “Green” rating	As per Link’s rating

Term deposits with part nationalised banks	Link's "Blue" rating	As per Link's rating
Certificates of deposit (CD's) or Corporate bonds with banks and building societies	Link's "Green" rating	As per Link's rating
Certificates of deposit (CD's) with part nationalised banks	Link's "Green" rating	As per Link's rating
Gilt Funds	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA	

NON-SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities in excess of 1 year**

	Minimum Credit Criteria	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits with UK nationalised and part nationalised banks	UK Sovereign rating	2 years
Fixed term deposits with variable rate and variable maturities: -Structured deposits with banks and building societies	UK Sovereign rating	2 years
Term deposits with unrated counterparties : ie Local Authorities	UK Sovereign rating	2 years
Term deposits with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	Link's "Purple" rating	2 years
Term deposits with banks and building societies	Link's "Purple" rating	2 years
Certificates of deposits with UK nationalised and part nationalised banks excluding Ulster bank (part of RBS)	Link's "Purple" rating	2 years
Certificates of deposits with banks and building societies	Link's "Purple" rating	2 years
Commercial paper issuance with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK sovereign rating	2 years
Commercial paper issuance bank and building societies	Link's "Purple" rating	2 years
Bonds issued by multilateral development banks	AAA	5 years

Sovereign bond issues (other that the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign rating	Max of 25% 5 years

NON-SPECIFIED INVESTMENTS

Property Funds - Property Funds were added to the list of Non-Specified Investments following approval by Full Council on 23 February 2016.

Multi Asset Funds - The use of this non-specified investment category was added to the list of Non-Specified Investments following approval by Full Council on xx 2017.

The use of these non-specified investment categories will continue in 2018-19 and subsequent years, until such time as a positive cashflow can no longer be maintained by the Council.

ACCOUNTING TREATMENT OF INVESTMENTS - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 2

Approved countries for investments (Position as at 15/01/18)

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a AAA sovereign rated as such by at least two of the three rating agencies (Fitch, Moody's and Standard and Poor's) with the exception of the UK.

The list will be reviewed and amended if appropriate on a daily basis by the Director of Corporate Services.

As of 15/01/18 sovereigns meeting the above requirement were:

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.K. (currently rated AA by Standard and Poor's, AA by Fitch and Aa2 by Moody's)
- USA (currently rated AAA by Fitch and Moody's, AA+ Standard and Poor's)

APPENDIX 3

Treasury Management Scheme for Treasury Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Finance & Audit Committee

- To receive and scrutinise the council's Treasury Management Strategy and the prudential indicators prior to the start of the financial year and make recommendations thereon to the Full Council
- To receive and scrutinise the Treasury Management Annual Report and comment on any actions that may have taken during the course of the year.
- To monitor the overall state of the council's finances on at least a quarterly basis and advise on any actions it recommends.
- To consider the division of responsibilities in respect of the Treasury Management function.
- To consider the selection of external service providers and agreeing terms of appointment.

APPENDIX 4

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy from 2019/20 to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees from 2019/20
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX 5

GLOSSARY

Authorised Limit	This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.
Borrowing For Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the government will give revenue support through the grant system. Additional borrowing the council may wish to undertake, but for which there will be no financial contribution through the grant system.
Capital Financing Requirement	A measurement of the council's underlying need to borrow for a capital purpose.
CIPFA Treasury Management Code Of Practice	The professional code governing treasury management, which the council has formally adopted.
Debt Management Agency Deposit Facility	This deposit facility allows short-term or long term deposits to be lodged with the government. This offers the highest security for the Principal sum on short-term placements.
Money Market Funds	A money market fund is a "pool" of different types of investments, managed by a fund manager. The pool of investments will typically include bank deposits, certificates of deposit (CDs) amongst other investments. A number of organisations will invest in a particular fund. The interest rate yield on an MMF deposit is not known at the time of the deal. In return for this uncertainty, money can be accessed whenever necessary.
Municipal Bond Agency	An agency has been established by the Local Government Association intended to offer council's an alternative and less costly option for borrowing of long-term funds than the PWLB through the introduction of competition and diversity to the marketplace.
Net Revenue Stream (NRS)	The NRS for the general fund is the "amount to be met from government grant and local taxpayers", as shown in the consolidated revenue account. This represents the budget requirement for the council. The NRS for the housing revenue

	account is the amount to be met from housing subsidy and rent income as shown in the HRA accounts.
Operational Boundary	This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure that authorised limit is not breached.
Public Works Loan Board (PWLB)	Part of the government's debt management office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of long-term borrowing for a local authority.

<table>
<tr><td colspan="2">IMPLICATIONS APPENDIX 6</td></tr>
<tr><td>LEGAL</td><td>As per section 1.13B.67 of the Council’s Constitution, the Chief Finance officer has delegated responsibility from cabinet.

“in respect of borrowing and investments to arrange such loans as are legally permitted to meet the Council’s borrowing requirements”</td></tr>
<tr><td>FINANCE AND VALUE FOR MONEY</td><td>Due to the nature of the report, the financial implications are contained throughout the report.

In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within this report. Investment durations do not exceed those as advised by Capita Asset Services credit ratings which are associated with the specific institutions.

Where the authority is required to borrow to meet the needs of the authority, officers will seek advice from Capita Asset Services on timings and options in order to ensure the best deal for the authority.</td></tr>
<tr><td>RISK ASSESSMENT</td><td>The risks associated with Treasury Management are detailed within this report.</td></tr>
<tr><td>EQUALITY IMPACT ASSESSMENT</td><td><table>
<tr><td colspan="3">SCREENING FOR EQUALITY IMPACTS</td></tr>
<tr><td>QUESTION</td><td>ANSWER</td><td>EXPLANATION</td></tr>
<tr><td>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?</td><td>No</td><td></td></tr>
<tr><td>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?</td><td>N/A</td><td></td></tr>
<tr><td>c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?</td><td>N/A</td><td></td></tr>
</table></td></tr>
</table>

	In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above
CORPORATE BUSINESS PLAN	**Corporate Objective Four – a Sound and Self Sufficient Council**
CRIME AND DISORDER	Treasury Management activities are carried out in accordance with the Treasury Management Strategy and Annual Investment Strategy which minimises the risk of criminal activities.