

Northampton Borough Council  
Treasury Management Strategy  
2018-19

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# 1 Introduction

## **CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes**

- 1.1 CIPFA has defined treasury management as “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”.
- 1.2 The Council has adopted CIPFA’s Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the Council’s Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

## **CIPFA Prudential Code for Capital Finance in Local Authorities**

- 1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (the **Prudential Code**) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc and Accounts).
- 1.4 The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.
- 1.5 Councils are required to set and monitor a range of prudential indicators for capital finance, covering affordability, prudence, capital expenditure, external debt and treasury management, as well as a range of treasury indicators.

## **Treasury Management Policy Statement**

- 1.6 The Council’s Treasury Management Policy Statement was approved by Council at their meeting of 25 February 2013. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

## **Treasury Management Practices**

- 1.7 The Council’s Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities. The TMPs are split as follows:
- Main Principles;
  - Schedules.
- 1.8 The Council’s TMP Main Principles were approved by Council at their meeting of 25 February 2013. They follow the wording recommended by the latest edition of the CIPFA Treasury Code.

- 1.9 The Council's TMPs Schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities. They are reviewed annually and approved by the Council's Chief Finance Officer (CFO).

### **The Treasury Management Strategy**

- 1.10 It is a requirement under the Treasury Code to produce an annual strategy report on proposed treasury management activities for the year.

- 1.11 The Council's Treasury Management Strategy is drafted in the context of the key principles of the Treasury Code, as follows:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds;
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

- 1.12 The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

- 1.13 The Treasury Management Strategy incorporates:

- The Council's capital financing and borrowing strategy for the coming year;
- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008;
- The Affordable Borrowing Limit as required by the Local Government Act 2003;
- The Annual Investment Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

- 1.14 The strategy takes into account the impact of the Council's Medium Term Financial Plan, its revenue budget and capital programme, the balance sheet position and the outlook for interest rates.
- 1.15 This Treasury Management Strategy also includes the Council's:
- Policy on borrowing in advance of need;
  - Counterparty creditworthiness policies.
- 1.16 The main changes from the previously approved Treasury Management Strategy are:
- Updates to Prudential and Treasury Indicators;
  - Updates to interest rate forecasts;
  - Updates to debt financing budget forecasts.

### **Scheme of Delegation**

- 1.17 The Treasury Management Scheme of Delegation at Appendix A is taken from the Council's TMP Schedules. It sets out the delegated treasury management responsibilities of Council, Cabinet, Audit Committee and the Section 151 Officer.

### **General Fund and HRA**

- 1.18 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix B.

### **Equalities Statement**

- 1.19 Equalities Impact Assessment (EIA) screening has been carried out on this Treasury Strategy, and the associated Treasury Management Practices (Main Principles and Schedules).
- 1.20 The EIA screening has determined that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

## **2 Current Treasury Management position**

- 2.1 The Council's projected treasury portfolio position at 31 March 2018, with forward estimates, is summarised below. Table 1 shows external borrowing against the Capital Financing Requirement (CFR) - which is a measure of the need to borrow for capital expenditure purposes - highlighting any forecast over or under borrowing.
- 2.2 The figures exclude any borrowing undertaken or planned for third party loans so as to focus on the Council's own cash position.

**Table 1: Treasury Portfolio at 31 March 2018**

£m	2017-18 Projected	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
<b>External borrowing</b>						
Borrowing at 1 April	217	223	235	247	260	271
Expected change in borrowing	6	12	12	12	11	5
<b>Borrowing at 31 March (1)</b>	<b>223</b>	<b>235</b>	<b>247</b>	<b>260</b>	<b>271</b>	<b>276</b>
<b>CFR at 31 March (2)</b>	<b>262</b>	<b>268</b>	<b>269</b>	<b>273</b>	<b>275</b>	<b>279</b>
<b>Under/(over) borrowing (2-1)</b>	<b>39</b>	<b>33</b>	<b>22</b>	<b>13</b>	<b>4</b>	<b>3</b>
<b>Investments</b>						
Investments at 1 April	75	72	77	88	98	109
Expected change in investments	(3)	5	11	10	11	6
<b>Investments at 31 March (3)</b>	<b>72</b>	<b>77</b>	<b>88</b>	<b>98</b>	<b>109</b>	<b>115</b>
<b>Net borrowing (1-3)</b>	<b>151</b>	<b>158</b>	<b>159</b>	<b>162</b>	<b>162</b>	<b>161</b>

### 3 Prospects for interest rates

- 3.1 The Council has appointed Link Asset Services (LAS) - previously named Capita Asset Services - as its treasury advisors. Part of their service is to assist the Council to formulate a view on interest rates. Table 2 below gives the LAS central view for the forecast bank rate, short term LIBID rates, and longer term PWLB rates (at November 2017).

**Table 2: Link Asset Services Bank Rate Forecast**

	NOW	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	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	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
10 yr PWLB	2.10	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
25 yr PWLB	2.70	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
50 yr PWLB	2.40	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

- 3.2 A detailed economic commentary is attached as Appendix E.

3.3 In summary, 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 remain relatively low during 2018/19 and beyond;
- Borrowing interest rates are forecast to increase moderately and progressively. The Council's previous policy of deferring new borrowing by running down cash balances (internal borrowing), has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or refinancing maturing debt;
- There will remain a cost of carry to any new borrowing. The temporary increase in cash balances will, most likely, incur a revenue loss pending outlay from the difference between borrowing costs and investment returns available.

## **4 Borrowing strategy**

### **Capital Financing**

4.1 The Council's capital programme is financed by borrowing and by other available sources such as capital receipts, grants, third party contributions and revenue contributions.

4.2 Where borrowing is used to finance the Council's capital expenditure this is done under the prudential borrowing regime, with the Council funding the full costs of borrowing from its own revenue resources. This method of funding, sometimes referred to as unsupported borrowing, is particularly suitable for 'spend to save' schemes, where the financing costs of borrowing can be funded from revenue savings. However lack of capital resources means that it may also be used for other essential capital schemes where no other resources can be identified. As the repayment of principal is spread over the life of the asset it is most suitable for financing capital assets with long useful economic lives.

4.3 The Council also makes use of operating and finance leases to fund some types of expenditure where these offer better value for money than straightforward purchase and capital financing. Examples of the types of assets that might be leased are IT equipment and office furniture.

4.4 The accounting treatment for operating and finance leases is very different. The annual costs of operating leases are treated as revenue expenditure in the accounts and are not included in the Council's capital programme. In contrast, finance leases have to be treated as capital expenditure items in the Council's accounts. Changes to accounting regulations mean that leases are increasingly being classified as finance leases.

## **Borrowing**

- 4.5 The Council as a whole is currently maintaining an under borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt. Instead, cash supporting the Council's reserves, balances and cash flow has been used to fund this requirement in leui – a process known as internal borrowing.
- 4.6 This strategy of internal borrowing has served the Council well in the current economic climate, as investment returns are low and counterparty risk is relatively high. However, the decision to maintain internal borrowing to generate short term savings must be evaluated against the potential for incurring additional long term borrowing costs in future years, when long term interest rates are forecast to be significantly higher. Consequently, the borrowing strategy will be to continue to apply internal rather than external borrowing to fund capital expenditure. However, from mid 2018/19 until the end of 2022/23 the Council may consider replacing existing internal borrowing with external borrowing in order to reduce the under borrowed position. Should long term borrowing rates rise as projected, this action would serve to "future proof" investment in order to deliver the Council's plans. However, this action must be considered against the cost of carry.
- 4.7 Against this background and the risks within the economic forecast, caution will be adopted with treasury operations. The CFO will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 4.8 The Council has access to Public Works Loan Board (PWLB) loans for its long term external borrowing needs at the 'certainty rate', which is 20 basis points below the standard PWLB rate.
- 4.9 Loans are also available from major banks via the money market and, depending on market conditions, these may be considered when they offer better value for money than PWLB loans. The Council will in particular consider forward funding deals to mitigate the interest rate risks associated with internal borrowing.
- 4.10 Other forms of borrowing such as bonds or private placements, either acting alone or through a collective agency such as the newly formed Municipal Bonds Agency, may be considered if available and appropriate.
- 4.11 Decisions on the timing and type of borrowing are taken in consultation with the Council's external treasury management advisors. All long-term external borrowing requires the express approval of the CFO, who has the delegated authority to take the most appropriate form of borrowing from approved sources.

## **Loans to Third Parties**

- 4.12 The Council may make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local economic development, and may be funded by external borrowing.
- 4.13 The Council also has powers to provide financial support to organisations under general powers of competence under the Localism Act 2011.



- 4.14 Enhancement to the governance and due diligence in respect of the awarding of grants and third party loans has been developed. This covers:
- Checklists and a manual;
  - The incorporation of external independent advice as part sign-off process.
- 4.15 Loans of this nature that remain outstanding have been lent to Northampton Town Rugby Football Club (NTRFC), Unity Leisure, Cosworth, University of Northampton (UoN) and Delapre Abbey Preservation Trust (DAPT).

### **Prudential & Treasury Indicators**

- 4.16 The Council's prudential and treasury indicators for 2018-19 to 2022-23 are set out at Appendix C.

### **Policy on borrowing in advance of need**

- 4.17 Under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years. The Council's policy on borrowing in advance of need is that this will not be undertaken 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.
- 4.18 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.

### **Debt rescheduling**

- 4.19 The debt portfolio will be kept under review, with debt rescheduling opportunities being investigated for potential cash savings and/or discounted cash flow savings or to enhance the balance of the portfolio.
- 4.20 As short term borrowing rates tend to be cheaper than longer term fixed interest rates, there can 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). Furthermore, changes to accounting regulations and to the structure of PWLB rates in recent years mean that rescheduling opportunities for the Council's PWLB loans are very much more

limited than in the past. Decisions will be made in consultation with advice from the Council's external treasury management advisers.

4.21 The reasons for any rescheduling to take place may include:

- The generation of cash savings and or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhancing the balance of the portfolio (by amending the maturity profile and/or the balance of volatility).

4.22 Any debt rescheduling undertaken will subsequently be reported to Cabinet in the next treasury report following the decision.

### **Affordable Borrowing Limit**

4.23 The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the "Affordable Borrowing Limit". This is equivalent to the treasury indicator for the authorised limit.

4.24 The Council's Affordable Borrowing Limits are set out in Table 3 below, broken down between the borrowing for capital expenditure purposes and that anticipated for the provision of loans to third parties.

<b>Table 3: Affordable Borrowing Limit</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
NBC CFR plus headroom	284	288	288	289	290
To support loans to third parties	50	50	50	50	50
<b>Affordable Borrowing Limit</b>	<b>334</b>	<b>338</b>	<b>338</b>	<b>339</b>	<b>340</b>

### **Temporary Borrowing**

4.25 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

4.26 In addition, under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements were set up with these organisations in April 2009. These contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%;
- Quarterly review of interest rates;

- Withdrawal notice periods of 7 days;
- Termination notice of 7 days.

4.27 The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

### **Overdraft Facilities**

4.28 A cost-benefit exercise was undertaken in late 2014-15 to determine what level of overdraft facility represented best value for money for the Council, based on a risk assessment of possible overdrawn scenarios. As the Council maintains very tight control of its cash balances, it was determined that the most cost effective approach was not to renew its overdraft facility when it came up for renewal in April 2015. This change was approved by the CFO and reported to Cabinet and Council in the 2014-15 Treasury Management Mid Year report.

4.29 Unauthorised bank overdrafts are currently charged at a standard debit interest rate of 2.00% above Bank Base Rate per annum.

## **5 Minimum Revenue Provision**

5.1 The Council is required to repay 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). The Housing Revenue Account is not subject to a mandatory MRP charge.

5.2 CLG Regulations require full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

5.3 The Council's policy statement on MRP for this year is set out at Appendix D. The policy is considered by the CFO to provide for the prudent repayment of debt.

## **6 Investment strategy**

6.1 Government Guidance on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

- 6.2 The Council's general policy objective is to invest its surplus funds prudently, and its investment priorities in order are:
- the **Security** of the invested capital;
  - the **Liquidity** of the invested capital;
  - the **Yield** received from the investment consummate with the above.
- 6.3 The Council's Annual Investment Strategy is set out at Appendix F.

## **7 Sensitivity of the forecast and risk analysis**

### **Risk Management**

- 7.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the treasury activities are:
- Credit and counterparty risk (security of investments).
  - Liquidity risk (adequacy of cash resources).
  - Interest rate risk (fluctuations in interest rate levels).
  - Exchange rate risk (fluctuations in exchange rates).
  - Refinancing risks (impact of debt maturing in future years).
  - Legal and regulatory risk (non-compliance with statutory and regulatory requirements).
  - Fraud, error and corruption, and contingency management (in normal and business continuity situations).
  - Market risk (fluctuations in the value of principal sums).
- 7.2 The TMP Schedules set out the ways in which the Council seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk). Council officers, in conjunction with the treasury advisers, will monitor these risks closely.

### **Sensitivity of the Forecast**

- 7.3 The sensitivity of the forecast is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the Council has no control. In terms of interest rates, with the forecast average investment portfolio of £77.0m for 2018-19 each 0.1% increase or decrease in investment rates equates to £77.0k, the revenue impact of which is shared between the HRA and the General Fund.
- 7.4 Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the Council's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP Schedules and the treasury strategy, and in line with the Council's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported to Cabinet as part of the Council's regular budget monitoring arrangements.

## 8 Reporting arrangements

8.1 In line with best practice full Council is required to receive and approve, as a minimum, three main treasury management reports each year, as follows.

- Annual Treasury Management Strategy.
- Treasury Management Mid Year Report.
- Treasury Management Outturn Report.

8.2 These reports include the Council's treasury and prudential indicators.

8.3 Full details of the Council's treasury management reporting arrangements are contained in the Council's Schedules to the Treasury Management Practices.

## 9 Debt financing budget

9.1 Table 4 below sets out the Council's debt financing budget for 2018-19 to 2022-23. Interest payable and reimbursements in respect of loans to third parties are included.

<b>Table 4: Debt Financing Budget</b>					
	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Interest payable	1,600	1,715	2,079	1,977	2,050
Interest Receivable	(1,453)	(1,672)	(1,732)	(1,396)	(1,429)
MRP	1,176	1,253	1,292	1,323	1,314
Recharges from/(to) the HRA	86	83	(108)	(172)	(72)
<b>Total</b>	<b>1,409</b>	<b>1,379</b>	<b>1,531</b>	<b>1,732</b>	<b>1,863</b>

9.2 MRP charges are in line with the Council's MRP policy at Appendix D.

## 10 Policy on the use of external service providers

10.1 Treasury management consultants are used to support the Council's treasury management activities by providing expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, creditworthiness of counterparties etc.

10.2 The current supplier of service is Link Asset Services (formerly named Capita Asset Services) under a framework contract with Local Government Shared Services (LGSS). The costs of the service are met by LGSS budgets.

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

## **11 Current and future developments**

- 11.1 Local Authorities have to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils' treasury management activities. The Government is introducing new statutory powers and policy change which will have an impact on treasury management approaches in the future. Examples of such changes are:

### **Codes of Practice updates**

- 11.2 Consultations have been issued on changes to codes of practice for Treasury Management, Prudential Code, MRP and Investments.
- 11.3 The proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties to be bought into the treasury definition of "investments", as well as loans made or shares bought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management to be addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.
- 11.4 The proposed changes to the Prudential Code include the requirement to production of a new high-level Capital Strategy report to full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit may be included in this report but other indicators may also be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to any subsidiaries the Authority may have.
- 11.5 The proposed changes to the Government guidance on Investments include disclosure requirements for contributions that non-core investment activity make towards core statutory functions; dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. Changes related to MRP include proposals for the definition of 'prudent provision' to one that requires MRP set to cover the gap between the Capital Financing Requirement and amount of that requirement funded by income, grants and receipts; regulation to ensure changing of MRP methodology does not generate an overpayment of MRP - i.e. no backdating of approach changes; and

setting of prescribed maximum useful economic lives for MRP calculations based on asset life.

- 11.6 The Council will continue to make representation to these consultations and consider the implications of these proposals upon its treasury function.

### **Market in Financial Instruments Directive (MiFID) II**

- 11.7 The forthcoming European regulation MiFID II is set to become effective from 3<sup>rd</sup> January 2018. The directive and UK implementation rules require regulated firms to classify Local Authorities previously assumed as professional clients by default instead to retail clients by default, unless Authorities opt-up to Elective Professional Status.

- 11.8 Classification as a retail client would mean regulated firms would either;
- No longer be able to offer Local Authorities in this category the investment opportunities outside those deemed appropriate for retail clients who are considered less knowledgeable in financial markets, or;
  - Those firms would be required to provide significant support in taking clients through accessing the risks and opportunities involved at considerable internal cost – these costs would either be passed on to the customer, or would more likely lead to a withdrawal of those opportunities to retail clients.

- 11.9 The opt-up to Elective Professional Status process involves an assessment of the expertise and experience of Local Authority treasury functions, a minimum portfolio size and minimum annual trade volumes. This Council fulfils those requirements, and has therefore applied to its investment counterparts for Elective Professional Status.

- 11.10 Obtaining Elective Professional Status will allow this Council to continue to access the markets and opportunities which have been available to it in the past, and is reflective of the Council's risk-based approach to conducting investment activity.

### **Enterprise Zone**

- 11.11 The Council continues to take forward infrastructure improvements to enable development and to attract investment into the Enterprise Zone, supporting employment growth. Loans have been granted from the Government's Growing Places Fund (GPF) and Local Infrastructure Fund (LIF). The repayment of funding (principal and interest) will be met, for the most part, from business rates uplift in line with the Enterprise Zone financial model.

### **Tax Incremental Financing**

- 11.12 The Government previously outlined plans to give local authorities the tools to promote growth, including giving more freedom for local authorities to make use of additional revenues to drive forward economic growth in their areas and deliver infrastructure projects.

- 11.13 To this aim they are looking to introduce new borrowing powers to enable authorities to carry out Tax Incremental Financing (TIF) for infrastructure projects.

This required new legislation and is closely linked to the localisation of business rates i.e. local retention of business rate income.

- 11.14 In determining the affordability of borrowing for capital purposes, local authorities take account of their current income streams and forecast future income. TIF will enable local authorities to borrow against a future additional uplift to their business rates base. It will be important to manage the costs and risks of this borrowing alongside wider borrowing under the Prudential Code.
- 11.15 The Council will continue to explore these opportunities and assess their impact on the Treasury Management Strategy, particularly in terms of risk to the sustainability, prudence and affordability to the Council's finances.

### **Autumn Budget Statement**

- 11.16 The Government spending review is published as part of the Chancellor's Autumn Statement in November 2017. The detail and the implications for this will be analysed and incorporated as required.

## **12 Training**

- 12.1 A key outcome of investigations into local authority investments following the credit crisis has been an emphasis on the need to ensure appropriate training and knowledge in relation to treasury management activities. This applies to officers employed by the Council and in particular treasury management staff, as well as members charged with governance of the treasury management function.
- 12.2 Policies for reviewing and addressing treasury management training needs are out in the TMP Schedules.

## **13 List of appendices**

- Appendix A: Treasury Management Scheme of Delegation and Role of Chief Finance Officer (Section 151 Officer)
- Appendix B: Policy for attributing income and expenditure and risks between the General Fund and the HRA
- Appendix C: Prudential and Treasury Indicators
- Appendix D: Minimum Revenue Provision (MRP) Policy Statement
- Appendix E: Economic Commentary
- Appendix F: Annual Investment Strategy



# Treasury Management Scheme of Delegation and role of the Chief Finance Officer (Section 151 Officer)

## Treasury Management Scheme of Delegation

### Council

The Council is responsible for:

- Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services;
- Approval of the Treasury Management Policy Statement;
- Approval of the annual Treasury Management Strategy and annual Investment Strategy;
- Setting and monitoring of the Council's prudential and treasury indicators;
- Approval of the treasury management mid-year and outturn reports;
- Approval of the debt financing revenue budget as part of the annual budget setting process.

### Cabinet

The Cabinet is responsible for:

- Consideration of the all of the above and recommendation to Council;
- Receiving monitoring information on the debt financing budget as part of the revenue budget monitoring process;
- Approving the selection of external service providers and agreeing terms of appointment in accordance with the Council's procurement regulations.

### Audit Committee

Audit Committee is the body responsible for scrutiny and will have responsibility for the review of treasury management policy and procedures, the scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Cabinet and Council.

## **Treasury management role of the Section 151 Officer**

The Council's Chief Finance Officer (CFO) is the officer designated for the purposes of Section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the Council.

The Council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the CFO, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

The CFO may delegate his power to borrow and invest to members of his staff.

The CFO is responsible for:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and monitoring compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes;
- Submitting regular treasury management reports to Cabinet and Council;
- Submitting debt financing revenue budgets and budget variations in line with the Council's budgetary policies;
- Receiving and reviewing treasury management information reports;
- Reviewing the performance of the treasury management function and promoting value for money;
- 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 (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules;
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.

### Policy for attributing income and expenditure and risks between the General Fund and the HRA

- 1.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix F.
- 1.2 The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.
- 1.3 The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount	Interest Rate
HRA Credit Arrangements CFR: concession agreements and finance leases	Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)	Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under funded CFR)	Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over funded CFR)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)	Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

- 1.4 For the purpose of calculating interest rates:
  - HRA cash balances are based on the average of opening and closing HRA cash balances;
  - HRA CFR external debt is based on actual external debt;
  - Other HRA CFR balances is based on the mid year position.
- 1.5 Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

- 1.6 Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with variable loans.
- 1.7 Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment, in the event of the failure of a counterparty.
- 1.8 Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two, using relevant available data. For example, in the event of impairment of an investment counterparty, the loss will be apportioned between the two funds based on an estimated proportion of cash balances held.

## Prudential and Treasury Indicators

The prudential indicators for 2018-19 to 2022-23 are set out below, each one with a commentary and risk analysis.

### Affordability

#### a) Estimate of the ratio of financing costs to net revenue stream

##### *Commentary*

The indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. The objective is to enable trends to be identified.

General Fund - The gently rising trend shown below reflects the cumulative impact of borrowing costs (interest and MRP) for capital programme schemes agreed each year, set against the backdrop of a reducing net revenue stream in future years.

HRA – The rising trend shown below reflects the cumulative impact of borrowing costs (interest only) for capital programme schemes agreed each year, set against the backdrop of a reducing net revenue stream in future years.

<b>Estimate of the ratio of financing costs to net revenue stream</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate %	Estimate %	Estimate %	Estimate %	Estimate %
General Fund	6.13	6.02	6.54	7.25	7.64
HRA	40.71	41.27	42.14	41.75	41.68

##### *Risk Analysis*

Debt financing costs relating to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will be dependent on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Carry forwards in the capital programme, whether planned or unplanned, will delay the impacts of debt financing costs to future years.

**b) Estimate of the incremental impact of capital investment decisions on the council tax**

***Commentary***

This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on the Council Tax of approving additional capital expenditure.

Revenue budget impacts may arise from the following:

- Direct revenue contributions;
- Lost interest on use of capital receipts;
- Lost interest on use of internal borrowing;
- Lost interest on use of earmarked reserves;
- Interest on use of external borrowing;
- Revenue running costs or savings.

The figure represents the incremental impact on Council Tax from agreed capital expenditure schemes starting in 2018-19 and planned for 2019-20 to 2022-23.

<b>Estimates of incremental impact of new capital investment decisions on the Council Tax</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
General Fund	0.37	2.79	4.16	5.34	5.79

***Risk Analysis***

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and risks of the project, and these should include any additional revenue costs associated with a scheme.

These procedures are designed to ensure that capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

**c) Estimate of the incremental impact of capital investment decisions on the housing rents**

***Commentary***

This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

Revenue budget impacts may arise from the following:

- Direct revenue contributions;
- Lost interest on use of revenue contributions;
- Lost interest on use of capital receipts;
- Lost interest on use of internal borrowing;
- Lost interest on use of earmarked reserves;
- Lost interest on use of Major Repairs Allowance (MRA);
- Interest on use of external borrowing;
- Revenue running costs or savings.

The figures represent the incremental impact on weekly housing rents from agreed capital expenditure schemes starting in 2018-19 and planned for 2019-20 to 2022-23.

The availability of additional revenue (reserve) funds to support capital expenditure is linked to the HRA self financing reforms; the abolition of subsidy payments to government (replaced by debt financing costs) has supported capital investment, initially to meet decent homes standards, and subsequently to maintain those standards and to invest in estate regeneration and/or new homes build. Actual rent rises will remain in line with the government rent restructuring policy, now laid down in legislation.

<b>Estimates of incremental impact of new capital investment decisions on Housing Rents</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
HRA	0.10	0.45	0.72	1.00	1.29

### ***Risk Analysis***

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the HRA revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the HRA Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and risks of the project, and these should include any additional revenue costs associated with a scheme.

These procedures are designed to ensure that HRA capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

## Prudence

### d) Gross debt and the capital financing requirement (CFR)

#### *Commentary*

This is a key indicator of prudence. It is intended to show that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and new two financial years. This demonstrates that the Council's borrowing has only been undertaken for a capital purpose.

<b>Gross debt and the capital financing requirement</b>		
	2018-19 £000 <b>Excluding</b> Third Party Loans	2018-19 £000 <b>Including</b> Third Party Loans
<b>Gross external debt</b>	<b>223,146</b>	<b>273,691</b>
2017-18 Closing CFR (forecast)	261,675	312,220
Increases to CFR:		
2018-19	6,283	6,003
2019-20	1,527	1,247
2020-21	3,752	3,503
<b>Adjusted CFR</b>	<b>273,237</b>	<b>322,973</b>
<b>Gross external debt less than adjusted CFR</b>	<b>Yes</b>	<b>Yes</b>

#### *Risk Analysis*

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual strategy.



## **Capital Expenditure**

### **e) Estimates of capital expenditure**

#### ***Commentary***

This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The draft capital programme for 2018-19 to 2022-23 for both the GF and HRA is included elsewhere on this agenda and sets out the levels of estimated capital expenditure.

Estimates include continuation schemes from previous years, new bids for the coming year, and block programmes for the coming and future years. The programme is agreed annually and will be adjusted in the context of future bids submitted and available resources when the annual programmes for the future years are agreed. Variations to the existing programme may also be agreed during the year.

#### ***Risk Analysis***

There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over or under budget, changes to specifications, and slowdown or acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. The risks are managed by officers on an ongoing basis, by means of active financial and project monitoring. Any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This can be particularly true of capital receipts, where market conditions are a key driver to the flow of funds, causing particular problems in a depressed or fluctuating economic environment. The financing position of the capital programme is closely monitored by officers on an ongoing basis and any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

### **f) Estimates of capital financing requirement (CFR)**

#### ***Commentary***

External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions.

The Council is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and the following two years thereafter. A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Council's previous, current and future capital programmes.

The table below splits out the impacts of loans to third party organisations funded by borrowing, where these are included in the Council's capital programme.

The General Fund CFR (excluding third party loans) shows a gentle increase over the forthcoming five-year period. The impact of proposed new capital expenditure funded by borrowing is offset by annual repayments of principal (MRP).

The HRA CFR shows an increase over the five year period as additional borrowing is planned to support the HRA capital programme. The HRA is not required to make an annual MRP charge towards debt repayment.

The changes to CFR for future years (2019-20 to 2022-23) are subject to future Council decisions in respect of the capital programme for those years.

<b>Capital Financing Requirement (Closing CFR)</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	31 March	31 March	31 March	31 March	31 March
	£000	£000	£000	£000	£000
General Fund	66	66	66	68	70
HRA	202	203	207	207	209
<b>Total</b>	<b>268</b>	<b>269</b>	<b>273</b>	<b>275</b>	<b>279</b>
Loans to third parties (GF)	50	50	50	50	50
<b>Total</b>	<b>318</b>	<b>319</b>	<b>323</b>	<b>325</b>	<b>329</b>

### ***Risk Analysis***

The capital financing requirement will vary from the estimates if there are changes to capital programme plans that result in reduced or increased borrowing to support expenditure. This will include adjustments between years as a result of carry forwards in the capital programme, which can impact on the profile of capital expenditure and the profile of the minimum revenue provision.

All borrowing plans must be affordable in revenue terms and to this end additional borrowing to fund capital expenditure will only be approved through the normal capital project approval process and where it has been demonstrated to be prudent affordable and sustainable.

### **External Debt**

## g) Authorised limit for external debt

### *Commentary*

For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

This requires the setting for the forthcoming financial year and the following four financial years of an authorised limit for total external debt (including temporary borrowing for cash flow purposes), gross of investments, separately identifying borrowing from other long term liabilities.

The authorised limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is “prudent” and be consistent with plans for capital expenditure and financing. It contains a provision for forward funding of future years capital programmes, which may be utilised if current interest rates reduce significantly but are predicted to rise in the following year.

This limit is based on the estimate of the most likely but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. It includes headroom for any planned loans to third party organisations where applicable.

The authorised limit is set at an amount that allows a contingency for any additional unanticipated or short-term borrowing requirements over and above the operational boundary during the period (see (h) below).

Other long-term liabilities relate to finance leases and credit arrangements.

The CFO will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

<b>Authorised limit for external debt</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	329	333	333	334	340
Other long-term liabilities	5	5	5	5	5
<b>Total</b>	<b>334</b>	<b>338</b>	<b>338</b>	<b>339</b>	<b>345</b>

### *Risk Analysis*

Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council’s cash flow requirements.

## h) Operational boundary for external debt

### **Commentary**

The proposed operational boundary is based on the same estimates as the authorised limit. However it excludes the additional headroom included within the authorised limit to allow for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the CFO. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The borrowing element of the operational boundary has been set with reference to the maximum Capital Financing Requirement (CFR) over the coming three years. It includes headroom for any planned loans to third party organisations.

Other long-term liabilities relate to finance leases and credit arrangements.

The CFO will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

<b>Operational boundary for external debt</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	319	323	323	324	330
Other long-term liabilities	5	5	5	5	5
<b>Total</b>	<b>324</b>	<b>328</b>	<b>328</b>	<b>329</b>	<b>335</b>

### **Risk Analysis**

Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council's cash flow requirements.

## **i) HRA Limit on Indebtedness**

### ***Commentary***

The local authority is required to report the level of the limit imposed (or subsequently amended) at the time of implementation of self-financing by the Department for Communities and local Government. It is the HRA capital financing requirement that will be compared to this limit.

### ***Indicator***

The **HRA limit on indebtedness is £217.001m**. This is the HRA debt cap imposed by the Department for Communities and Local Government (DCLG). The original debt cap of £208.401m was increased by DCLG to allow for additional borrowing to fund new council house building at Dallington Beck in 2015-16 and 2016-17.

### ***Risk Analysis***

The current HRA business plan has been modelled with full regard to the DCLG debt cap requirements. The risk assessment of the business plan does not identify the breach of the debt cap as a risk. However there is an identified risk around the Government's rent setting policy which is now laid down in legislation and also that inflation levels may change more than expected. This could result in the financial assumptions in the business plan proving to be inaccurate, leading to reduced headroom for borrowing with the need for a combination of savings and a re-phased Asset Management Plan. In this instance borrowing may reach (but not breach) the debt cap.

## **Treasury Management**

### **j) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services**

#### ***Commentary***

The Prudential Code requires that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward looking treasury management strategy, and recognition of the pre-existing structure of the authority's borrowing and investment portfolios.

#### ***Indicator***

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The adoption is included in the Council's Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

## ***Risk Analysis***

Effective risk management is a fundamental requirement for the treasury management function, and this theme runs explicitly through the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

The prime policy objectives of the Council's investment activities are the security and liquidity of funds, and return on investments will be considered only once these two primary objectives have been met. The Council will thereby avoid exposing public funds to unnecessary or unquantified risk.

The Council's Treasury Management Strategy Report discusses the ways in which treasury management risk will be determined, managed and controlled.

## **Treasury Indicators**

### **k) Maturity structure of borrowing**

This indicator sets both upper and lower limits with respect to the maturity structure of the Council's borrowing.

The indicator represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months;
- 12 months and within 24 months;
- 24 months and within 5 years;
- 5 years and within 10 years;
- 10 years and within 20 years;
- 20 years and within 30 years;
- 30 years and within 40 years;
- 40 years and above.

The Treasury Management Code of Practice Guidance Notes requires that the maturity is determined by the earliest date on which the lender can require payment, which in the case of LOBO loans is the next break period. However in the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.

The proposed limits for the forthcoming year are:

<b>Maturity Structure of Borrowing</b>		
	Lower Limit %	Upper Limit %
Under 12 months	0%	20%
Between 1 and 2 years	0%	20%
Between 2 and 5 years	0%	20%
Between 5 and 10 years	0%	20%
Between 10 and 20 years	0%	40%
Between 20 and 30 years	0%	60%
Between 30 and 40 years	0%	80%
Over 40 years	0%	100%

### ***Risk Analysis***

The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

#### **I) Upper limits on interest rate exposures**

The Council must set for the forthcoming financial year and the following two financial years, upper limits to its exposure to the effect of changes in interest rates. These limits relate to both fixed interest rates and variable interest rates, and are referred to as the upper limits on fixed interest rate and variable interest rate exposures.

The purpose of the indicator is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates, as in the case of LOBOs.

These limits can be expressed either as absolute amounts or as a percentage. They may be related either to the authority's net principal sum outstanding on its borrowing/investments or to the net interest on these.

The Council has chosen to express these indicators as percentages rather than absolute values. Separate indicators are set and monitored for debt and investments, as well as for the net borrowing position.

It is proposed to maintain the upper limits on interest rate exposures for borrowing at 100% for both fixed and variable rate debt. This will allow officers to make judgements on the most appropriate form of borrowing dependant on the market conditions and rates on offer, rather than being artificially constrained by the indicator. In practice there is likely to be a mix of fixed and variable rate borrowing in the Council's debt portfolio.

<b>Upper limits on interest rate exposures - borrowing</b>		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%
2020-21	100%	100%
2021-22	100%	100%
2022-23	100%	100%

<b>Upper limits on interest rate exposures - investments</b>		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%
2020-21	100%	100%
2021-22	100%	100%
2022-23	100%	100%

The interest rate exposures for net borrowing are distorted when debt and investment are combined. However, this combined indicator is included here for completeness, and as required by the Treasury Management Code of Practice. The percentages in the table below allow for both borrowing and investments to independently reach limits of 100% for both fixed and variable rates. Actual percentages on net borrowing may sometimes be in excess of 100% or below zero (ie negative percentages).



<b>Upper limits on interest rate exposures – net borrowing</b>		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2017-18	150%	150%
2018-19	150%	150%
2019-20	150%	150%
2020-21	150%	150%
2021-22	150%	150%
2022-23	150%	150%

**m) Total principal sums invested for periods longer than 364 days**

Under the Local Government Act 2003 and the CLG Guidance on Local Authority Investments 2004 (revised 2010), all Councils are permitted to invest for periods exceeding 1 year (or 364 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent method and the more straightforward to monitor.

The limit has been set at a level that would allow for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable.

The proposed limits for the forthcoming, and following four financial years are as follows.

<b>Upper limit on investments for periods longer than 364 days</b>					
	2018-19	2019-20	2020-21	2021-22	2022-23
	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m
Investments > 364 days	7	8	9	10	10

This upper limit has been calculated at a prudent level with regard to cashflow liquidity, based on a maximum of 10% of forecast average general (HRA & GF) cash balances in year.

### Minimum Revenue Provision Policy Statement

- 1.1 The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, require local authorities to make 'prudent provision' for the repayment of its General Fund debt. This debt repayment is known as the Minimum Revenue Provision (MRP).
- 1.2 A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets for which the borrowing has been carried out.
- 1.3 Since 2007-08 the Council has used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.
- 1.4 The authority is required, under the 2008 regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council's policy statement on MRP for 2018-19 is set out below. The policy is considered by the Chief Finance Officer (CFO) to provide for the prudent repayment of debt.
  - 1.4.1 The Council has implemented the 2008 CLG Minimum Revenue Provision (MRP) guidance from 2008-09 onwards, and assessed their MRP from 2008-09 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
  - 1.4.2 MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the "regulatory method".
  - 1.4.3 The debt liability relating to capital expenditure incurred from 2008-09 onwards will be subject to MRP under option 3, the "asset life method", and will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
  - 1.4.4 Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
  - 1.4.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit

that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner that reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

- 1.4.6 The Council will seek to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts will be used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt will be based on the lives of the remaining asset for which borrowing was undertaken.
- 1.4.7 MRP will be charged from the financial year after the asset comes into use.
- 1.4.8 In cases where the Council has approved the use of capital receipts to fund the asset, this funding will be assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge will be made.
- 1.4.9 No MRP will be charged in respect of capital expenditure funded by borrowing where the expectation is that a future capital receipt will be applied to the CFR as a voluntary debt repayment for the borrowing - for example capital expenditure on preparing assets for sale. Where this approach is used it will be reviewed on an annual basis, in consideration of updated expectations over the timing and certainty of capital receipts, and to ensure that the latest estimate of proceeds is sufficient to cover the MRP liability.
- 1.4.10 In respect of the borrowing undertaken to fund loans to Northampton Town Football Club, the capital receipt from the proposed sale of the associated development land will be utilised to reduce the outstanding CFR liability and finance the loan impairment when the land is sold and the capital receipt is realised. This approach will be reviewed on an annual basis to ensure that the latest estimate of proceeds is sufficient to cover the MRP liability. In the event that they are not, the Council will make a charge to revenue, either immediately or over a period of time, to reduce the CFR accordingly.
- 1.4.11 Where finance leases are held on the balance sheet, the MRP will be set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.
- 1.4.12 The Council will take advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of new accounting guidance or proper practice.
- 1.4.13 In respect of loans to third parties supported by borrowing, where these are treated as capital expenditure, and contractual terms are in place to secure repayment over a period not exceeding the life of the asset, the Council will

not charge MRP on the related expenditure; the CFR will be reduced by the third party loan repayments as and when these are received.

- 1.4.14 In respect of infrastructure improvements and other capital schemes where repayment of the funding (principal and interest) will be met from business rates uplift in line with the Enterprise Zone financial model, and the repayment does not exceed the life of the asset, the Council will not charge MRP on the related expenditure; the CFR will be reduced by the amount of repayment of principal through business rates as and when these are made.
- 1.4.15 The Minimum Revenue Provsion Policy Statement will be continuously reviewed throughout the financial year and particularly with respect to any devlopments in the Council's Efficiency Plan. Any required amendments or changes will be brought back to Council for approval.

### Economic Commentary – Link Asset Services (LAS)

#### ECONOMIC CLIMATE

November 2017 saw two major UK economic developments:

1. After the MPC painted themselves into a corner with their words following their previous meeting on 14 September 2017, it was a virtual certainty that Bank Rate would go up by 0.25% this time around. The MPC duly delivered on those words by a vote of 7-2 to remove the post EU referendum emergency monetary stimulus implemented in August 2016 by reversing the cut in Bank Rate at that time from 0.5% to 0.25%, (with no change in QE this time). In view of the robust rate of growth in the second half of 2016 which confounded the Bank's August 2016 forecasts for a sharp slowdown, many commentators subsequently held the view that that emergency action was unnecessary. On the face of it, to now increase Bank Rate when economic growth in 2017 in quarters 1 and 2 was so disappointingly weak, (0.2% and 0.3% respectively), can appear to be perverse.
2. The MPC 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.

Financial markets viewed this result as being more dovish than they had expected and sterling duly responded by falling 0.8% against the dollar and euro on the day. As this was the first increase in Bank Rate for a decade, the MPC was right to avoid alarming consumers and financial markets, and to be very reassuring about the pace of future increases.

The quarterly Inflation Report itself, was notably downbeat about economic growth based on a view that the trend rate of growth for the economy has now fallen from 2.2% to only 1.5%, (whereas in the decade before the financial crash it grew at 2.9% p.a.). One of the main focuses for this was a view that productivity growth would remain very weak at about only 1% p.a. This does not augur well for increases in wage rates. This, in turn, is likely to feed through into weak domestically generated, (i.e. excluding the one off post referendum imported inflation through the fall in the value of sterling), price pressures underpinning CPI inflation. Overall, the Inflation Report was little changed from the August report and again forecast that inflation would be barely above the 2% target at the three year time horizon; it is also expected to peak very soon at 3.2%, (September was 3.0%), before falling thereafter as the devaluation effect gradually falls out of the 12 month statistics. As for forecasts for GDP growth, these also barely changed with growth falling from 1.7% to 1.6% for 2017 and being unchanged for 2018 (1.6%) and 2019 (1.8%). The MPC was also quite concerned about the situation over Brexit as there has been little significant agreement so far in terms of moving towards giving UK firms some confidence of what sort of trade terms the UK is likely to have with the EU from 2019. They felt that this uncertainty was holding back investment. The MPC's forecasts are predicated on an assumption that households and companies base their decisions on a smooth adjustment to a new trading relationship with the EU.

It has to be said that overall, this is really a quite pessimistic outlook for the UK economy. For some commentators, raising Bank Rate with such a weak outlook, did not sit easily together. However, the MPC's main justification for taking action now to raise Bank Rate was that because unemployment was at the lowest rate for 42 years at only 4.3%, there was little spare capacity left in the economy, especially when increases in productivity were expected to be so weak and taking account of Brexit caused expected falls in net immigration. They also noted that consumer confidence has remained resilient and the global economy was growing strongly which would help UK exports. In addition, financial conditions were highly accommodative through the current level of monetary policy.

Accordingly, despite this weak outlook for GDP growth, they needed to take action now to ward off the potential for inflationary pressures to start building up.

## **FORECASTS**

The MPC commented that the UK is going through a period of heightened uncertainty due, particularly, to the unknowns around how the Brexit negotiations will proceed and the likely effect on households and companies. They will adjust their responses according to how these turn out and in the light of how the economy progresses over the next two to three years. We would agree with these qualifications. Obviously, if the negotiations are very difficult and end up being disappointing, this could put in jeopardy even two Bank Rate increases over the next three years.

We can only forecast given the current situation and have to flag up that there is a wide spread of potential outcomes during this forecast period. There is, therefore, a likelihood of heightened volatility as events actually unfold. However, strong causal links in western economies between falling unemployment and rising inflation, appears to be broken. This has led some commentators to raise the question as to whether we are now moving into a new paradigm of low unemployment at the same time as low inflation, where central bank policy targets of focusing primarily on inflation are beginning to be called into fundamental question. The example of Japan, which has struggled for some two decades to get inflation up to 2% despite massive repeated rounds of QE, is just one example.

What will actually happen to wage inflation, therefore, remains a key issue. If wage inflation continues to remain very subdued over the next two to three years, this will act as a significant headwind to the MPC justifying further increases in Bank Rate due to inflationary threats building up.

However, it has in the past 'looked through' e.g. one off increases in inflation which it saw as a temporary occurrence; the MPC could, therefore, be flexible in implementing its mandate of focusing primarily on inflation. Alternatively, they could justify increases in Bank Rate as being primarily due to the need to simply remove monetary policy stimulus as this has caused massive distortions in the economy with asset prices e.g. share prices and house prices have been the main beneficiaries while savers have been the major losers through low interest rates.

The central forecasts are cautious and in line with this subdued path for increases in Bank Rate; we do not currently see inflation posing a significant threat over the next three years. We have 0.25% increases in November 2018 to 0.75%, 1.0% in November 2019 and 1.25% in August 2020. This is much in line with market expectations.

Our central assumption is that the UK will make progress with concluding a satisfactory outcome over the Brexit negotiations with the EU by March 2019, although the UK finance sector is likely to be an area of particular concern and difficulty.

## **FORWARD VIEW**

Economic forecasting remains difficult with so many external influences weighing on the UK. Bank Rate forecasts, and also MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more “risky” assets i.e. equities, or the “safe haven” of government bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. A world economic recovery will likely see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and any resulting effect on PWLB rates.

- The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit;
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively;
- Forecasts are predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea, which have a major impact on international trade and world GDP growth.

However, PWLB rates and bond yields are unpredictable at present. Revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

**Downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows;
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system;
- Weak capitalisation of some European banks;

- The result of the October 2017 Austrian general election is likely to result in a strongly antiimmigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets;
- Rising protectionism under President Trump;
- A sharp Chinese downturn and its impact on emerging market countries.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect;
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields;
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.



# Appendix F

## Annual Investment Strategy

### 1 Investment policy

- 1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 1.2 The Council's appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.
- 1.3 Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

### 2 Creditworthiness policy

- 2.1 The Council's counterparty and credit risk management policies and its approved instruments for investments are set out in the TMP Schedules. These, taken together, form the fundamental parameters of the Council's Investment Strategy.
- 2.2 The Council defines high credit quality in terms of investment counterparties as those organisations that:
  - Meet the requirements of the creditworthiness service provided by the Council's external treasury advisers (ie have a colour rating) and;
  - Have sovereign ratings of AA or above, or are;
  - UK banking or other financial institutions or are;
  - UK national or local government bodies or are;
  - Triple A rated Money Market funds.

### 3 Sovereign limits

- 3.1 The Council has determined that for 2018-19 it will only use approved counterparties from countries with a sovereign credit rating from at least one of the three main ratings agencies of at least AA. However the limit for the amount that may be invested and the duration of the investment will be banded according to the sovereign rating. These limits are set out in the table at paragraph 7.4.

## 4 Investment position and use of Council's resources

- 4.1 The application of resources, such as capital receipts, reserves etc., to either finance capital expenditure or for other budget decisions to support the revenue budget will have an ongoing impact on investments balances and returns unless resources are supplemented each year from new sources such as asset sales. Detailed below are estimates of the Council's year end balances available for investment.

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
Expected investment balances	72	77	88	98	109	115

- 4.2 Investment decisions will be made with reference to the core balance, cash flow requirements and the outlook for interest rates.
- 4.3 Should the Council strategically reduce its the under borrowed position, this will lead to greater investment balances. This trend is illustrated in the above table that shows a steady increase in the expected investment level.

## 5 Specified investments

- 5.1 Under the Local Government Act 2003 the Council is required to have regard to the CLG Guidance on Local Government Investments. This requires that investments are split into two categories:
- (i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.
  - (ii) Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.
- 5.2 The detailed conditions attached to each of these categories are set out in the TMP Schedules.
- 5.3 The majority of the Council's investments in 2018-19 will fall into the category of specified investments.

## 6 Non-specified investments

- 6.1 Prior to the start of each financial year officers review which categories of non-specified investments they consider could be prudently used in the coming year.
- 6.2 The recommendation for 2018-19 is that the following non specified investments may be entered into:

- 6.2.1 Long-term investments (those for periods exceeding 364 days), which could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management.

Amounts deposited for over 364 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits.

Only counterparties in the Council's current approved counterparty list that have limits of over 364 days will be used for such investments.

Any overall stricter limits in force in the Council's investment counterparty policies at any time will take precedence.

- 6.2.2 The following items, being non-specified only by virtue of the Council's lack of previous exposure to these instruments, are:

- UK Government Gilts;
- Treasury Bills;
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534;
- Reverse Gilt Repos;
- Commercial paper;
- Gilt funds and other bond funds;
- Enhanced money market funds;
- Property funds.

Before proceeding with any of the above treasury management staff will take advice from the Council's external treasury advisors as appropriate, ensure that they fully understand the product and its risks, and prepare a business case to be signed off by the CFO.

These business cases will include:

- A clear justification for using the product;
- Evaluation of counterparty and other risk;
- Procedures and limits for controlling exposure.

## **7 Counterparties**

7.1 Over-arching policies for the management of counterparty and credit risk are set out in the TMP Schedules. The Council's approach to counterparties for 2018-19 is set out below.

7.2 The CFO will use the recommendations of the creditworthiness service provided by the Council's external treasury advisers to determine suitable counterparties and the maximum period of investment, using the ratings assigned.

7.3 The CFO will determine, in the context of the above, and taking into account appropriate risk management factors:

- Any further criteria to be put in place to determine suitable counterparties;
- The maximum investment amount to be held with each type of counterparty assigned a rating;
- The maximum investment period with each type of counterparty assigned a rating.

7.4 The following table sets out the Council's counterparty criteria for 2018-19.

<b>Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria</b>		
<b>Counterparty Type</b>	<b>NBC Additional Limits – Value per individual counterparty or banking group</b>	<b>NBC Additional Limits - Duration</b>
<b>(1a)</b> UK Government	£20m	3 years
<b>(1b)</b> UK nationalised or part nationalised banking institutions	£20m	3 years
<b>(1c)</b> Other UK counterparties	£15m	3 years
<b>(1d)</b> Other Local Authorities	£10m	3 years
<b>(2a)</b> Non UK counterparties having a sovereign rating of AAA	£15m	3 years
<b>(2b)</b> Non UK counterparties having a sovereign rating of AA+	£10m	2 years
<b>(2c)</b> Non UK counterparties having a sovereign rating of AA	£3m	1 year
<b>(3)</b> Money Market Funds (CNAV) having a credit rating of AAA	£15m	N/A - Liquid deposits

7.5 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is added by the counterparty to the principal investment amount, for example in the case of some call and deposit accounts. In such instances the interest amounts will be withdrawn back to the Council's main bank account as soon as reasonably practicable.

- 7.6 The maximum percentage of the investment portfolio, excluding instant access accounts and Money Market Funds, that may be placed with overseas counterparties at any one time is 50%.
- 7.7 Any types of investments that fall within the category of specified investments as set out in the TMP Schedules and any types of non-specified investments approved as part of this document may be made within the bounds of the counterparty policies.
- 7.8 The total value of investments over 364 days at any one time is restricted by the treasury indicator for the upper limit on investments for periods longer than 364 days.
- 7.9 The Council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward deposits are to be made, the forward period plus the deal period should not exceed the limits above.
- 7.10 The CFO has discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments. At all times the Council's minimum level of credit risk, as set out in the TMP Schedules, will be met.

## **8 Liquidity of Investments**

- 8.1 Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council's liabilities.
- 8.2 Investment periods range from overnight to 364 days as specified investments, or 3 years as non-specified investments. When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates. As cash balances available for investment are forecast to be somewhat reduced compared to previous years, the preservation of liquidity will be a critical determinant for treasury officers when determining the value and duration of investments.
- 8.3 Amounts deposited for over 364 days will also be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits and the treasury indicator for investments over 364 days. Long term investments of over 2 years will only be made in exceptional circumstances and with approval of the CFO.
- 8.4 For short term and overnight investment, the Council makes full use of triple A rated Money Market Funds and appropriate bank call and deposit accounts offering competitive rates and, in most instances, instant access to funds.
- 8.5 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

## **9 Investments defined as capital expenditure**

- 9.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as ‘non-specified investments’.
- 9.2 Investments in “money market funds” which are collective investment schemes and bonds issued by “multilateral development banks” – both defined in SI 2004 No 534 – will not be treated as capital expenditure.
- 9.3 A loan or grant or financial assistance by this Council to another body, for capital expenditure by that body, will be treated as capital expenditure by the Council.

## **10 Lending to third parties**

- 10.1 Officers will ensure that any loans to or investments in third parties comply with legislative requirements. This would normally, but not necessarily, be under one of the following Acts of Parliament:
- The Localism Act 2011 gives local authorities a general power of competence to act in the same manner as any other legal person, except where those powers are specifically limited by statute;
  - The Local Government Act 2000 contains wellbeing powers for local government that allow local authorities to do anything, including to give financial assistance to any person, which they believe is likely to promote or improve the economic, social or environmental well being of their area. Certain conditions, including consultation requirements, must be complied with in order to meet the requirements allowing the local authority to use the wellbeing powers.
- 10.2 Loans of this nature must be approved by Cabinet. The primary aims of the Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and then to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan to a third party.
- 10.3 Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating. In order to ensure security of the Authority’s capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where deemed necessary, additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company.

## **11 Provisions for credit related losses**

11.1 If any of the Council's investments appears at risk of loss due to default (i.e. this is a credit related loss and not one resulting from a fall in price due to movements in interest rates) the Council may make a prudent revenue provision of an appropriate amount.

## **12 Banking services**

12.1 Following a joint procurement exercise with Cambridge City Council and South Cambridgeshire District Council, Barclays Bank were awarded the Council's banking services contract with effect from 1<sup>st</sup> October 2016. The contracts initial duration is 3 years with an option to extend for a further 2 years.

12.2 It is the Council's intention that, should the event of the credit rating downgrade of the provider of its banking services lead to that bank falling below the Council's minimum investment criteria, the bank may continue to be used for short term liquidity requirements (kept under daily review).

## **13 End of year investment report**

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