Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Wednesday 7 February 2018 at 7.30pm

Council Chamber
Runnymede Civic Centre, Addlestone

Members of the Committee

Councillors M J Maddox (Chairman), D A Cotty (Vice-Chairman), J R Ashmore, Miss E G Bancroft, Mrs L M Gillham, Miss D Khalique, N M King, Mrs C S S Manduca and P S Sohi.

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Overview and Scrutiny Select Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Democratic Services Section, Law and Government Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425624). (Email: john.gurmin@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

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4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

5) **Filming, Audio-Recording, Photography, Tweeting and Blogging of Meetings**

Members of the public are permitted to film, audio record, take photographs or make use of social media (tweet/blog) at Council and Committee meetings provided that this does not disturb the business of the meeting. If you wish to film a particular meeting, please liaise with the Council Officer listed on the front of the Agenda prior to the start of the meeting so that the Chairman is aware and those attending the meeting can be made aware of any filming taking place.

Filming should be limited to the formal meeting area and <u>not extend to those in the public seating area</u>.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

LIST OF MATTERS FOR CONSIDERATION

PART I

Matters in respect of which reports have been made available for public inspection

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection.

a) Exempt Information

9. ASHDENE HOUSE REDEVELOPMENT – BUSINESS CASE (TO FOLLOW)

b) Confidential Information

(No reports to be considered under this heading)

1. **FIRE PRECAUTIONS**

The Chairman will read the Fire Precautions which set out the procedures to be followed in the event of fire or other emergency.

2. **NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP**

3. **MINUTES**

To confirm and sign, as a correct record, the Minutes of the meeting of the Committee held on 11 January 2018 (at Appendix 'A').

4. **APOLOGIES FOR ABSENCE**

5. **DECLARATIONS OF INTEREST**

If Members have an interest in an item please record the interest on the form circulated with this Agenda and hand it to the Legal Representative or Democratic Services Officer at the start of the meeting. A supply of the form will also be available at the meeting.

Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when attending the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must leave the room if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

Members are reminded that a non pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared as should their membership of an outside body in their private capacity as a Director, trustee, committee member or in another position of influence thereon.

6. **REVIEW OF THE COUNCIL'S PLANNING SERVICE (CHIEF EXECUTIVE)**

Synopsis of report:

To consider the arrangements for the review of the Council's Planning Service.

Recommendation:

To approve the terms of reference (to follow) of the review of the Council's Planning Service.

Background papers

None

7. **2018/19 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION (RESOURCES)**

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2018/19.

Recommend to Full Council:

i) The Council adopt both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition and the Prudential Code for Capital Finance in Local Authorities – 2017 Edition;

ii) The proposed 2018/19 Treasury Management Strategy encompassing the Annual Investment Strategy as set out in this report be approved;

iii) The Prudential and Treasury Management Indicators for 2018/19 as set out in Appendix 'E' be approved;

iv) The revised Treasury Management Practices as set out in Appendix 'G' and Treasury Management Schedules as set out in Exempt Appendix 'A' be approved;

v) The authorised limit for external borrowing by the Council in 2018/19, be set at £637,943,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003;

vi) That there be no change to the previously adopted MRP policy as set out below:

> ***The Council will use the asset life method as its main method for calculating MRP.***
> ***In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated. Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts) no MRP charge will be applied*.**

1. Context of report

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

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 The Chartered Institute of Public Finance Accountants (CIPFA) define treasury management as:

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

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

- Prudential and Treasury Indicators and Treasury Strategy (this report)
- A mid year Treasury Management Report
- An annual Treasury Report

1.5 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Corporate Director of Resources, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.6 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Select Committee and this report has also been considered by the Corporate Management Committee at its meeting on 25 January 2018.

1.7 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2011 Edition (the TM Code) and the Prudential Code and this report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the relevant CIPFA Codes and Department for Communities and Local Government (DCLG) Guidance.

1.8 CIPFA have recently revised both the TM Code and Prudential Code and these were published over the 2017 Christmas period. Full adoption of these revised codes is recommended and the recommendations to this report have been drafted accordingly. Due to the timing of the issuing of these revised codes and the confusions contained within them, CIPFA have recognised that the requirements "may not be able to be fully implemented until 2019/20 financial year" but recommend "that the requirements of both Codes are implemented as soon as possible". Officers have prepared this report based on their understanding of this new guidance. However, Members are to be made aware that there could be further amendments during the next six months as solutions to some of the requirements are fully understood.

1.9 The Department for Communities and Local Government (DCLG) have also revised their Investment Guidance (last revised in March 2010) and the MRP Guidance (last revised in 2012). The 2010 Guidance was very focussed on investments in financial institutions, and now authorities are increasingly investing in non-financial assets, they need to be brought in the scope of the Guidance. The Guidance retains the requirement for an Investment Strategy to be prepared at least annually and approved by Full Council.

1.10 Key changes to the DCLG guidance are expected to be:

- Increased transparency and democratic accountability
- Disclosure of the contribution that investment activities make to the Council's core funds (e.g. how much reliance on investment property income)
- Additional indicators to assess total risk exposure
- The extension of the Security, Liquidity and Yield principle to non-financial investments
- The introduction of proportionality to avoid over-reliance on any one income source
- Changes to guidance for MRP
- Introduction of a maximum economic life of assets for MRP purposes

1.11 All the above proposals have been discussed and/or incorporated in this report and the appropriate Council Strategies to which they relate.

1.12 A glossary of treasury terms has been included at Appendix 'F' to assist Members with some of the terms covered in this report.

2. **Treasury Management consultants and training**

2.1 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Link Asset Services (formerly CAPITA Asset Services – Treasury Solutions) provide this service to the Council, although responsibility for final decision making remains with the Council and its Officers at all times.

2.2 The quality of this service is controlled by the Corporate Director of Resources assessing the quality of advice offered and other services provided by Link. In particular, the Corporate Director of Resources holds regular meetings with Link (normally 3 to 4 times a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

2.3 A market testing exercise is conducted every three years when other treasury consultants are invited to submit proposals to carry out the service. These proposals are analysed for quality and price in accordance with the procedures set out in the rules on the use of professional and consultancy services published in the Council's Constitution (as part of Standing Orders for Contracts). Link won a three year contract which ends on 30 September 2019.

2.4 The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Relevant training courses, seminars and conferences are provided by a range of organisations including Link and CIPFA.

2.5 The CIPFA Code requires the Corporate Director of Resources to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Member training was last carried out by Link Asset Services to 22 Members on 29 November 2017. Further training will be arranged as required.

2.6 Under the new MiFID regulations, in order for the Council to be able to "opt-up" to professional status, the Council is required to state the knowledge and skills of key staff involved in the treasury decision making – this is a mandatory criterion. Financial institutions decide whether the Council can opt-up, and there is comfort in that where the Council is accepted as a professional client, we have the required level of skills and knowledge expected by the financial institutions of key treasury staff.

3 Treasury Management Strategy (TMS)

3.1 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations. It covers:

- The economy and prospects for interest rates
- The current treasury position
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt restructuring
- Annual investment strategy
- Other treasury matters (required under DCLG Investment Guidance)

These issues are covered in the following paragraphs.

The economy and prospects for interest rates

3.2 The Council has appointed Link as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and paragraph's gives Link's view on interest rates and the ecomony:

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

3.3 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

3.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve (Fed.) Has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

3.5 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

3.6 From time to time, gilt yields – and therefore PWLB rates – can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

3.7 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.8 There are plenty of other risks to the forecast. However the overall balance of risks to economic recovery in the UK is probably to the downside, particularly in view of the current uncertainty over the final terms of Brexit.

The current treasury position and prospects for investment income

3.9 In accordance with the TM Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, the effects of Brexit and other geo-political concerns prompts a low risk and short term strategy.

3.10 All Investments are made with reference to the Council's core balances and cash flow requirements which are derived from the annual budget, the Medium Term Financial Strategy, the Capital Programme and Capital Strategy, and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

3.11 Borrowing interest rates increased sharply after the result of the General Election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

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

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

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

3.14 Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years. The budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%

3.15 The overall balance of risks to these forecasts is currently skewed to the upside and is dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

3.16 It is important that the Council manages its treasury management activities to maximise investment income and reduce debt interest, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs. Based on the above forecasts, the 2018/19 estimate for investment income and debt interest split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	218	115	333
Interest on loans to RBC companies	1,349	-	1,349
Interest paid on deposits and other balances	(1)	-	(1)
Net Investment Income	**1,566**	**115**	**1,681**
Debt Interest	(11,234)	(3,425)	(14,659)
Net Investment Income / (Debt interest)	**(9,668)**	**(3,310)**	**(12,978)**

3.17 The estimate is based on achieving the assumed investment returns set out in paragraph 3.14, using the level of revenue and capital reserves for 2018/19 as set out in the latest capital and revenue budgets contained in the Medium Term Financial Strategy.

3.18 For information, a schedule of treasury activity for the month of December 2017 is set out at Appendix 'B'.

Borrowing Strategy

3.19 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.20 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised.

3.21 The Council's strategy for long term borrowing is as follows:

Sources of borrowing
The approved sources of long-term and short-term borrowing will be:
- *Public Works Loan Board (PWLB)*
- *any institution approved for investments*
- *any other bank or building society approved by the Financial Conduct Authority*
- *UK public and private sector pension funds (except the Surrey Pension Fund)*
- *Capital market bond investors*
- *UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues.*

Debt instruments

Borrowing will be arranged by one of the following debt instruments:

- *fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicator, below*
- *lender's option borrower's option (LOBO) loans, subject to a maximum of £10 million*
- *bonds*

3.22 Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.

Policy on Borrowing in Advance of Need

3.23 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.24 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.

3.25 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.

Debt restructuring

3.26 From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

3.27 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

3.29 All rescheduling will be reported to the Council, at the earliest meeting following its action.

Annual Investment Strategy

3.30 Local authorities must draw up an "Annual Investment Strategy" for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the DCLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**. This approach is inherent in our treasury management strategy.

3.31 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.

3.32 As well as the changes to the CIPFA Codes and DCLG guidance, a further impact on the Council next year will be the full adoption of a new International Financial Reporting Standard dealing with Financial Instruments (IFRS9). One of the key impacts of IFRS 9 will be that, whilst many loans and investments will continue to be held at amortised cost, gains and losses arising from changes in the fair value of some categories of investments will have to be recognised in authorities' revenue accounts. This means that from 2018/19 changes in the value of certain investments will have a consequent impact on the General Fund. This may have an impact on the level of local authority reserves being held to manage risk.

3.33 At the time of writing both the DCLG and CIPFA, whilst having some sympathy for the view that some form of statutory override might be appropriate, have only stated that they will be willing to consider representations from local authorities in this area informed by evidence.

3.34 The Council's current strategy allows it to invest in several classes of pooled funds that would fall under the remit of IFRS9, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The Council has invested a principal sum of £2m in the CCLA Property Fund which would be caught by this change. This investment was worth £2.3m as at 31 March 2017. Other funds have been investigated but decisions to invest in them have been put on hold until a final decision on any statutory override has been made.

3.35 The DCLG Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council's strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2017/18 in March 2017 and an updated Strategy for 2018/19 is set out at Appendix 'C'.

3.36 There are two changes to the proposed strategy for next year. The first relates to the use of unrated building societies. The Council used to take comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. Unfortunately this advantage was removed with the introduction of the EU's Recovery and Resolution Directive which has now been fully implemented by the UK. On account of this change officers have stopped lending to unrated building societies and the strategy has been amended accordingly.

3.37 To counter the loss of the unrated building societies from our lending list the second proposed change is to increase the limits for lending to Local, Police, Fire, Civil Defence & Transport Authorities. The current approved limit is £2m. However, many of the bigger authorities will not borrow less than £5m due to the administrative burdens this places on them when they are borrowing tens of millions of pounds. As this is seen as a relatively safe sector, Officers are proposing to increase the limits to £5m for 2018/19 societies and the strategy has been amended accordingly.

Markets in Financial Instruments Directive 2014 (MIFID II)

3.38 The EU set a deadline of 3 January 2018 for the introduction of new regulations under MIFID II which was introduced in response to the financial crisis of 2007. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions have with local authorities from that date. From 3 January all organisations should be treated as Retail clients unless they meet certain criteria. Due to the volume and value of transactions undertaken by the Council, the regulations stipulate that the Council should be classified as a professional investor, rather than a retail investor.

3.39 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 knowledgable 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.

3.40 Being a professional investor means that the Council will lose certain protections afforded to retail clients. However, the Undertakings for Collective Investment in Transferable Securities regulations, plus new and existing MMF protections, mean there is still plenty of protection for professional clients. There is also comfort in fact that the Council has the required level of skills and knowledge expected by the financial institutions of its key treasury staff and ongoing training as set out in the Councils TMPs is a key instigator in this.

3.41 It is ultimately up to each financial institution to decide whether the Council can opt-up, based on information it requests from the Council. Some brokers and counterparties are refusing to deal with authorities that do not opt up due to the increased level of work involved on their part (both hand holding and administration burdens) and there would appear to still be some confusion within the market as to what types of organisation and investment vehicle require the opting up process. In December there was a flurry of activity from some of the Council's counterparties and brokers but not others. For instance some building societies have requested information and others have not and some Money Market Funds are not requiring us to opt up but others are.

3.42 The new regulations place an additional administrative burden on the Council and Officers will need to continually review its options and advise all counterparties of any changes in the Council's circumstances. The TM Code also requires the Council to set out a list of those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client. The current list is set out at Appendix 'D'.

4 Non Financial Investments

4.1 One of the key changes to the Prudential Code, TM Code and DCLG guidance is the inclusion of what is termed "non-treasury" investments. For Runnymede this is our commercial and investment property portfolio, which has been developed in accordance with our Property Investment Strategy, and our loans to our wholly owned companies. Both categories of non-financial investments are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing.

4.2 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management and will ensure that all such investments are covered in the Capital Strategy and/or Property Investment Strategy and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be highlighted that the risk appetite for these activities may differ from that for treasury management.

4.3 The Council will in the future maintain a schedule setting out a summary of existing material non-treasury investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure and include it in the relevant strategies.

Property Investment Strategy

4.4 The Council owns a significant investment property portfolio. Properties have been purchased which generate a significant rental stream exceeding the rates the Council is able to get with its cash investments. The Council takes a proactive stance in investing in property and property development to achieve a number of aims including diversification of assets, potential capital appreciation and higher returns than can be achieved through cash investments.

4.5 Fair value assessments will be made for all non-financial assets as part of the year end accounting process in accordance with International Accounting Standard 40: Investment Property. The Property Investment Strategy will include a statement that a fair value assessment has been made within the past twelve months, and whether the underlying assets provide security for the capital investment and where this is no longer the case, details of the mitigating actions that the Council is taking or proposes to take to protect the capital invested will be provided.

4.6 The latest Property Investment Strategy was approved by full Council on 9 February 2017.

Loans

4.7 A local authority may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

4.8 In 2015 the Council approved the establishment of the following three Council owned companies:

- RBC Investments (Surrey) Limited – (RBCI)
  The Council owns 100% of the shares in RBCI which was formed in January 2015. The purpose of the company is to hold investments in residential property around the borough and act as the holding company of RBC Services (Addlestone One) Limited

- RBC Services (Addlestone One) Limited – (RBCS)
  The Council owns 1% of the shares in the company with the remaining 99% owned by RBC Investments (Surrey) Limited. RBCS was set up to publicise and promote the Addlestone One development and to carry out its ongoing maintenance, landscaping, cleaning, residential concierge services, gritting, loading, and security (including CCTV).

- RBC Heat Company Limited – (RBCH)
  The Council owns 1% of the shares in the company with the remaining 99% owned by RBC Services (Addlestone One) Limited. RBCH will provide heat and light to all the residential properties within the Addlestone One development and any commercial properties that wish to take it. This company remained dormant in 2016/17.

4.9 As part of the setup of these companies a Loan Facilities Agreement was entered into between the Council and RBC Investments (Surrey) Limited. This allows for a development loan of up to £26.3m for the purchase of property and a working capital loan facility of up to £445,000 to be drawn down as and when required. Under accounting regulations the development loan is classed as capital expenditure whilst the working capital loan is a cost to the General Fund. The income generated to the General Fund from these loans is based on interest rates ascertained by following State Aid rules and the European Commission published methodology at the time of the agreement. This resulted in interest rates of 5.04% for the development loans and 7.54% for the working capital loans.

5. Prudential and Treasury Management Indicators 2018/19

5.1 The Prudential Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

5.2 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Strategic Business Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

5.3 One of the key changes to the Prudential and TM Codes is the requirement to develop a Capital Strategy to link both codes. The Council has for many years produced a Capital Strategy which it updates annually. The Capital Strategy for 2018/19 to 2021/22 is set out elsewhere on this agenda and this forms the basis of the information that generates the Prudential and Treasury Management Indicators.

5.4 In setting or revising their prudential indicators, local authorities must have regard to:

- Service objectives e.g. strategic planning for the authority
- Stewardship of assets e.g. asset management planning
- Value for money e.g. option appraisal
- Prudence and sustainability e.g. implications for external borrowing
- Affordability e.g. implications for Council Tax and balances
- Practicality e.g. achievability of the forward plan.

5.5 To demonstrate that these objectives are being fulfilled the Prudential Code operates through the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator is annually updated as part of the budget process and projected forward for the next three years. The Code requires that the Council approves as a minimum certain mandatory prudential indicators.

5.6 Prudential Indicators are designed to support and record local decision making. They are not performance indicators and are not comparable between authorities, all of whom will have differing policies and debt positions . In addition the indicators should not be taken individually; the benefit from monitoring will arise from following the movement in indicators and the year on year changes over time.

5.7 Both the Prudential and Treasury Management Codes set definitions for the terms used and the method of calculating the indicators. A complete set of all indicators, which are a mix of estimated and actual figures, ratios, and limits, is set out in Appendix 'E'.

6. Minimum Revenue Provision (MRP) Policy Statement

6.1 When a Council funds capital expenditure by borrowing, the costs are charged to the Council Tax payer in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.

6.2 To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement – 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 MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken. There is not an earmarked reserve for MRP, it is represented in the accounts as increased cash.

6.3 There is no requirement on the HRA to make a minimum revenue provision.

6.4 DCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The aim of the DCLG Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends 4 options for calculating a prudent MRP as follows:

1. Regulatory Method
2. CFR Method
3. Asset Life Method (repayment over the useful life of the asset on an asset life basis)
4. Depreciation Method (cost less estimated residual value)

Options 1 and 2 should normally only be used for Government-supported borrowing with options 3 and 4 being used for self-financed borrowing.

6.5 The DCLG consultation paper on MRP issued at the end of 2017 suggested four changes to the regulations. These relate to the definition of prudent provision, the meaning of a charge to the revenue account, the impact of changing methods of calculating MRP and the introduction of a maximum economic useful life of assets. It is this last item that has proved the most controversial.

6.6 Initially the proposals seemed to suggest that the maximum life of a building would be set at 40 years which would make regeneration schemes such as Addlestone One unaffordable and would be contradictory to other aspects of the regulations. Since its original, seemingly hard line approach, subsequent clarifications have suggested that this is guidance which the DCLG would expect to be followed unless there is a good need or reason to vary from the procedures. The proposals do not seem to be retrospective or a requirement to change previously approved prudent policies.

6.7 In December 2014 the Council set a new MRP Statement to reflect impending property transactions. As the new proposals essentially relate to prudent provisions and the relevant useful lives of assets, these will be unique to each asset borrowed against and as such will not affect the overall method chosen for calculating MRP. There are therefore currently no plans to amend the statement at the present time. The Council's MRP statement for 2018/19 will therefore be as follows:

> *"The Council will use the asset life method as its main method for calculating MRP. In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated. Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts) no MRP charge will be applied".*

7. Policy On Charging Interest To The Housing Revenue Account (HRA)

7.1 The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.

7.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund and cannot be applied to the HRA.

8 Treasury Management Risks

8.1 Treasury management activity involves risks which cannot be eliminated but need to be managed. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk.

8.2 Overall responsibility for treasury management risk remains with the Council at all times. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt other than that investments must be placed with adherence to Security, Liquidity and Yield (in that order). The Council's lending and borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

8.3 The key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) and in the Council's Statement of Accounts both of which can be found on the Council's website.

Bail in and Ringfencing risk

8.4 One risk not included in the TMPs is the bail-in risk. From January 2019, the largest UK Banks will be required to separate their retail banking services to individuals and small businesses from their investment banking activities. Banks with less than £25 billion in the Financial Services Compensation Scheme (FSCS) covered retail deposits are exempt, or those that only undertake retail banking, so this will only affect Barclays, Lloyds, HSBC and RBS. It is expected, however, that the banks will have implemented the changes during 2018, and it will therefore impact on the timeframe of this strategy.

8.5 In general terms, the probability of a bail-in is smaller at a retail bank, but the loss incurred would likely be larger. This is because retail banks will typically have more capital to protect against losses, but fewer wholesale deposits and senior unsecured bonds to share losses with.

8.6 Each bank will have a different procedure, and we could be put in the retail bank of one bank, and an investment bank of another. The splits are not yet certain, and we cannot choose.

8.7 Because the banks are being split, this will mean some name changes – yet to be determined. In addition, credit rating agencies are starting to take account of banks' ringfencing in their ratings. In general, they expect to give the ringfenced "retail" bank a higher credit rating than the non-ringfenced "investment" bank. An investment made now, could therefore be transferred into a new bank with a different credit rating within the next year. Officers will keep a close eye on the situation and make adjustments to our lending strategy as required throughout the year.

Risks relating to non-financial assets

8.8 Investment property risks include loss of income during void periods, the risk the tenants cannot pay the rent, overall property market risk and the risk of falling property values. The

Council mitigates these by having a diverse investment property portfolio, a review of tenant covenant strength prior to becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate.

8.9 These risks are set out in more detail in the Property Investment Strategy.

9. Legal Implications

9.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2013) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the Department for Communities and Local Government (DCLG) Investments Guidance when carrying out their treasury management functions.

9.2 Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.

9.3 The LGA 2003 requires each Council to set an affordable borrowing limit. The Full Council must carry out this duty; it cannot be delegated. Having set this limit the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.

9.4 Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.

9.5 The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

9.6 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

> *"A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."*

10. Conclusions

10.1 There were a bewildering array of consultations out at the end of 2017, the CIPFA codes, IFRS9 and the CLG Minimum Revenue Provision (MRP) Guidance and Investment Guidance, not forgetting MiFiD and Money Market Fund reform. Whilst there are a number of contradictions and inconsistencies, a common theme seems to be to address the problem of non-treasury investments i.e. commercial property purchases.

10.2 Whilst CIPFA have concluded their review of the Treasury Management Code of Practice and the Prudential Code, revised codes were not received until after Christmas 2017. CIPFA have indicated that these codes will be effective for the 2018/19 financial year. However they recognise that the requirement included in the Prudential Code to produce a Capital Strategy may require a longer lead-in period. Therefore the CIPFA Treasury and Capital Management Panel recognise that this requirement may not be able to be fully implemented until 2019/20 financial year. They do however recommend that the requirements of both Codes are implemented as soon as possible.

10.3 As the TM Code and Prudential code are inextricably linked, and some of the requirements remain confusing and ambiguous, Link Asset Services are of the opinion that the CIPFA statement applies to both codes and that full implementation is not required until 2019/20. However, Officers will endeavour to meet the full requirements as soon as practicable and the contents of this report go a long way to meeting them. With the DCLG guidance still awaited (no publication date has yet been announced), there will undoubtedly be further changes to the strategies requirements in the coming months.

10.4 All these changes to the regulations have had a knock on effect on the Council's TMPs. These have therefore been amended in accordance with the changes set out in this report and are set out in Appendix 'G' for approval along with the more detailed Treasury Management Schedules (more detailed schedules supporting the TMPs at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions) that accompany them which are set out at Exempt Appendix 'A' (information exempt under paragraph 3 of Schedule 12A to Part 1 of the Local Government Act 1972).

10.5 Aside from the raft of new guidance, we remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy – reflected in a 0.5% Bank Rate. As a consequence, authorities are not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. The Annual Investment Strategy therefore provides that the management of counterparty risk is the treasury management priority.

10.6 The MRP Statement and the Prudential Indicators set out in this report are consistent with the Council's policies aims and objectives.

(To recommend to Full Council)

Background Papers

1. Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2011 Edition – CIPFA
2. Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities – CIPFA
3. Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition – CIPFA
4. The Prudential Code for Capital Finance in Local Authorities – 2011 Edition
5. The Prudential Code for Capital Finance in Local Authorities – 2017 Edition
6. Guidance on Local Government Investments – DCLG, 2010
7. Consultation on the proposed changes to the prudential framework of capital finance – DCLG

8. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following report under Section 100A(4) of the Local Government Act 1972 on the grounds that the report in question would be likely to involve disclosure of exempt information of the description specified in paragraph 3 of Part 1 of Schedule 12A of the Act.

(To resolve)

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection

a)	Exempt Information	Para
9.	ASHDENE HOUSE REDEVELOPMENT – BUSINESS CASE	3
	To follow.	
b)	Confidential Information	
	(No reports to be considered under this heading)	

Runnymede
BOROUGH COUNCIL

OVERVIEW AND SCRUTINY SELECT COMMITTEE

7 FEBRUARY 2018

APPENDICES

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

11 January 2018 at 7.30.p.m.

Members of the Committee present: Councillors M J Maddox (Chairman), D A Cotty (Vice-Chairman), Miss E G Bancroft, Mrs L M Gillham, N M King and P S Sohi.

Members of the Committee absent: Councillors J R Ashmore, Miss D Khalique and Mrs C S S Manduca.

Councillor Mrs D V Clarke also attended.

FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

MINUTES

The Minutes of the meeting of the Committee held on 5 October 2017 were confirmed and signed as a correct record.

APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J R Ashmore and Mrs C S S Manduca.

APPLICATION OF THE OPENNESS OF LOCAL GOVERNMENT BODIES REGULATIONS 2014 TO THE LOCAL PLAN MAKING PROCESS AND SUBMISSION

The Committee noted a report on the application of the Openness of Local Government Bodies Regulations 2014 to the Local Plan Making Process and Submission.

The Committee had agreed that an item raised by Councillor Mrs Manduca be included on its work programme for 2017/18 on the Openness of Local Government Bodies Regulations 2014 (hereinafter referred to as “the 2014 Regulations”). The Committee noted that full Council at its meeting on 9 January 2018 had agreed that the draft Local Plan be endorsed as sound and that public consultation take place on the draft Local Plan. This public consultation was known as the Regulation 19 consultation. Full Council had also agreed at that meeting that following conclusion of the public consultation, the Corporate Director of Planning and Environmental Services, further to discussion with the Chief Executive, Chairman of the Planning Committee, Leader of the Council and Leader of the Runnymede Independent Residents Group, be authorised to make any non–substantive changes / updates to the draft Local Plan and submit the draft Local Plan to the Secretary of State on or before 31 March 2018. The Chairman of the Overview and Scrutiny Select Committee had called this Special Meeting of the Committee so that the item raised by Councillor Mrs Manduca could be discussed and advice could be provided on the application of the 2014 Regulations to decisions delegated to Officers which may be made in relation to the preparation of the Local Plan.

The Committee noted that the 2014 Regulations imposed a requirement that certain decisions taken by Officers acting under powers delegated to them by a council or local government body, its committees or sub-committees or a joint committee were recorded and published. The Committee noted the requirements of the 2014 Regulations in relation to delegated decisions taken by Officers. The 2014 Regulations did not create any specific requirement in respect of any decisions which might be delegated in respect of the Local Plan making process and applied generally to delegated decisions made by Officers.

It was noted that the consultation period which was the subject of the full Council decision on 9 January 2018 as set out above (the Regulation 19 consultation) would end on 22 February 2018. When the consultation period ended the Corporate Director of Planning and Environmental Services (CDPES) would discuss with the Officers and Members referred to in that full Council decision whether any changes /updates required to the draft Local Plan were substantive or non-substantive. Having undertaken that discussion, provided that he remained satisfied that any changes/updates required were non-substantive, he would exercise the delegated authority given to him and would take a decision to submit the draft Local Plan to the Secretary of State for the Department for Communities and Local Government. The Committee noted that if the CDPES decided to exercise the delegated authority given to him in respect of the draft Local Plan, the decision taken by him would be recorded in writing and be displayed on the Council website Local Plan consultation page and on the Council website Local Plan newsflash page which had links to the RBC Planning Twitter feed. The publication of the decision in that manner would be in compliance with the 2014 Regulations.

The Committee noted that Councillor Mrs Manduca, who had raised the issue of the 2014 regulations, was not present at the meeting. (After the meeting had concluded, the Committee noted that Councillor Mrs Manduca had not been present at the meeting as she had been delayed in travelling to it and her apologies for absence have been recorded in these Minutes). No other Member or Officer at the meeting was able to provide any further background on why the issue of the 2014 Regulations had been raised.

It was noted that currently one Member of the Overview and Scrutiny Select Committee could give written notice that they wished an item relevant to the functions of the Overview and Scrutiny Select Committee to be placed on the agenda. It was suggested by a Member of the Overview and Scrutiny Select Committee that the Constitution Member Working Group should consider whether to recommend to the Corporate Management Committee that at least two Overview and Scrutiny Select Committee Members should be required to give written notice that they wished an item to be placed on the agenda for discussion by the Overview and Scrutiny Select Committee. This would be a similar arrangement to the Procedure rules for call-in where a request for a call-in had to be signed by at least two Members of the Overview and Scrutiny Select Committee. The reason for this suggestion was that if written notice of an item was given by more than one Member then if one of them was not able to be present at the meeting then the other Member or Members that had raised the item who were present at the meeting could explain why the item had been brought forward by them. The Committee agreed that the Constitution Member Working Group be requested to consider whether to make such a recommendation.

Chairman

(The meeting ended at 7.50 p.m.)

Treasury Management – December 2017 (RESOURCES)

The Council's Annual Investment Strategy (approved by Full Council on 2 March 2017) sets out the criteria for lending and borrowing, in particular, the rules for selecting counterparties.

The following tables set out the investment and borrowing activities undertaken during the month of December 2017

INVESTMENTS				
Investment Sector	Outstanding at 1 Dec 2017	New Investments	Investments Recalled	Outstanding at 31 Dec 2017
	£000	£000	£000	£000
Banking Sector	19,000	-	-	19,000
Building Societies	10,050	2,000	550	11,500
MMF – Call Accounts	9,370	2,060	2,100	9,330
MMF – Longer Duration	-	-	-	-
Debt Management Office	-	-	-	-
Local Authorities	2,000	-	-	2,000
Property Funds	2,000	-	-	2,000
Funding Circle	481	3	-	484
TOTALS	**42,901**	**4,063**	**2,650**	**44,314**

BORROWING				
Borrowing Sector	Outstanding at 1 Dec 2017	New Borrowings	Borrowing Repaid	Outstanding at 31 Dec 2017
	£000	£000	£000	£000
HRA	101,956	-	-	101,956
P.W.L.B				
General Fund				
P.W.L.B	189,336	-	-	189,336
Oxfordshire CC	5,000	-	-	5,000
Hampshire CC (M3 LEP)	1,500	-	-	1,500
TOTALS	**297,792**	**-**	**-**	**297,792**

2017/18 Authorised Borrowing Limit (£000) : 544,519

Annual investment strategy
for the 2018/19 financial year

APPENDIX 'C'

Introduction

1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. This strategy applies to both in-house and externally managed funds. External managers must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2017/18 on 2 March 2017.

Investment Policy

4. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

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

7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.

8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

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

   - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

   - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services, the Council's treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use.

12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for Officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

13. The Guidance defines specified investments as those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments

Annual investment strategy
for the 2018/19 financial year

	Paragraph (where applicable)	Fitch Long term Rating (or equivalent)	£ Limit	Duration
Banks 1	17	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
Banks 2 (Part nationalised)	18	N/A	£3.0m	364 days
Banks 3 (Council's own bankers)	19	N/A	£1.0m	1 day
Building Societies	20	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		AAA	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	364 days
Money Market Funds	21	AAA	£6.0m	Liquid
Government bonds (gilts) and treasury bills	22	N/A	No limit	364 days
Multinational Development Banks		AAA	£1.0m	364 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

15. As far as reasonably possible, no more than 50% of total investments made are to be lent to building societies at any one time.

16. No investment with any one provider/organisation will exceed £6m in total, with the exception of investments with the UK Government

Banks

17. **Banks 1** – Banks will be regarded as having good credit quality if they meet the following criteria:

    i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or

    ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA or AA+

    and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i) Short term – F1 / P-1 / A-1

    ii) Long term – A- / A3 / A-

18. **Banks 2** – Part nationalised UK banks –and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

19. **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity..

Building societies

20. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

21. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity will be used as an alternative to instant access deposit accounts,

Government bonds (gilts) and treasury bills (T-bills)

22. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

23. T-Bills are short term securities issued by HM Treasury on a discount basis. For example a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the interest received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

24. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

25. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £1 million to be placed with any non-UK country at any time;

26. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

27. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

28. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £5 million (excluding any accrued interest).

29. The advice of our treasury management consultants will be sought prior to making any long-term investment as to appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Any bank or building society (including forward deals in excess of one year from inception to repayment).		AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.		N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity	31			
a) Multilateral development bank bonds		AAA	£1.0m	3 years
b) A financial institution that is guaranteed by the United Kingdom Government		N/A	£1.0m	3 years
Short Dated Bond Funds / Enhanced Cash Funds	32	N/A	£2.0m	2 years
UK Small & Medium Sized Enterprises via the Funding Circle	33	N/A	£5,000 per organisation subject to an overall limit of £0.5m	5 years
Pooled Funds and Collective Investment Schemes	34	AAA	£2.0m	N/A
Investment in Property	35	Subject to the limits set out in the Property Investment Strategy		

Supranational bonds

30. The Council will invest in two types of bonds:

a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity

Short Dated Bond Funds / Enhanced Cash Funds

31. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council will make loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. Nevertheless, it is anticipated that such companies will, on occasion, fail to repay the money lent. The Council will therefore ensure that the interest rate secured on such loans is high enough to cover the cost of defaults in all but the most exceptional circumstances. To this end, the Council will build a diversified portfolio of SME loans, with a maximum limit on the size of loan of £5,000 per company and a maximum limit of £500,000 in total to SMEs.

Pooled Funds

33. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

Non-Treasury Investments

34. In addition to its cash investment funds the council also owns a significant investment property portfolio. Properties have been purchased and these generate a significant rental stream exceeding the rates the Council is currently able to get with its cash investments. The Council has taken a proactive stance in investing in property and property development to achieve a number of aims including diversification of assets, potential capital appreciation and higher returns than can be achieved through cash investments. These investments are monitored through a separate Property Investment Strategy.

Liquidity Management

35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

36. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:

- No more than £1 million of outstanding investments are to be over 3 years until maturity, and
- No more than £5 million of outstanding investments are to be over 1 year until maturity.

38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 35).

Planned Investment Strategy for 2018/19

39. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund

managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Annex A

Credit ratings and definitions

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	**S&P**	**Fitch**
	Investment grade	
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
	Speculative grade	
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

<u>(Negative) Rating Watch – Fitch Ratings</u>
Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

<u>Review for possible downgrade – Moody's (Standard & Poor's is very similar)</u>
Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed

<u>(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)</u>
Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

Markets In Financial Instruments Directive 2014 (MIFID II)

As a result of the implementation of the Markets in Financial Instruments Directive (MiFID II), on the 3rd January 2018, the Council put in a request to some the financial institutions, with which it deals, to elect up from retail to professional status. This is in order to continue to access the markets and opportunities which have been available to it in the past including maintaining access to regulated financial services firms including banks, brokers, advisers, fund managers and custodians with whom we have dealings regarding regulated investment products.

The Council has reviewed its classification with financial institutions under MIFID II and the following is a list of those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

Professional client status agreed:

- Aberdeen Standard Investments
- BGC Brokers (Sterling Brokers)
- CCLA
- Coventry Building Society
- FIS Global (Sungard investment portal)
- Goldman Sachs Asset Management
- King & Shaxson (Brokers)
- Link Asset Services (Treasury Advisors)
- Principality Building Society
- Tradition UK Limited (Brokers)

Professional client application outstanding:

- Aviva Investors
- Deutsche Asset Management
- Garban Intercapital ICAP (Brokers)
- Insight Investment
- Leeds Building Society
- Lloyds Bank Plc

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS 2017/18

CAPITAL & AFFORDABILITY RELATED INDICATORS

1 **Capital Expenditure** – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Housing Services	232	917	934	951	951
Environment & Sustainability	578	1,042	1,250	1,250	2,300
Community Development	167	515	4,981	203	155
Corporate & Business – Property	99,814	266,922	157,252	138,900	5,500
Corporate & Business – Other	82	451	223	223	248
Non-HRA	**100,873**	**269,847**	**164,640**	**141,527**	**9,154**
HRA	2,584	4,195	4,946	1,300	1,300
Total	**103,457**	**274,042**	**169,586**	**142,827**	**10,454**
Financed by:					
Capital Receipts	5,261	36,215	10,196	5,333	3,586
Earmarked Reserves	0	0	0	0	300
Capital Grants & Contributions	491	278	0	0	0
Revenue	2,575	2,471	3,988	1,168	1,168
Net financing need for the year	**95,130**	**235,078**	**155,402**	**136,326**	**5,400**

2 **The Council's borrowing need (the Capital Financing Requirement)** – The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below:

	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
CFR at 1 April	**150,862**	**245,457**	**478,883**	**631,251**	**766,103**
Net financing need for the year (from above)	95,130	235,078	155,402	138,800	5,400
Less MRP/VRP and other financing movements	(535)	(1,652)	(3,034)	(3,948)	(4,714)
CFR at 31 March	**245,457**	**478,883**	**631,251**	**766,103**	**766,789**

3 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are

estimates of the year end investment balances based on assumed cash movements in the MTFS and Capital Programmes.

	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
HRA Balances	21,355	21,060	20.593	17,593	14,593
General Fund (GF) Balance	6,536	4,301	4,322	3,163	3,022
GF Earmarked reserves	2,130	1,065	533	266	0
Capital receipts – Usable	14,282	11,464	11,788	9,624	6,732
Other	6,773	3,592	1,564	0	0
Expected investments	**51,076**	**41,482**	**38,800**	**30,646**	**24,347**

4 **Affordability Prudential Indicators –** The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

5 **Ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	2016/17 Actual %	2017/18 Probable %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Non-HRA	21.16	98.12	199.13	273.15	303.87
HRA	41.38	42.66	42.62	42.72	43.07

The General Fund increase is due to additional borrowing to fund the Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers hence the sharp increase in the percentage

TREASURY RELATED INDICATORS

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

7 **Current Portfolio Position** – The Council's predicted treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
External Debt					
Debt at 1 April	140,792	232,792	467,870	623,272	759598
Expected change in debt	92,000	235,078	155,402	136,326	5,400
Actual gross debt at 31 March	**232,792**	**467,870**	**623,272**	**759,598**	**764,998**

CFR	**245,457**	**478,883**	**631,251**	**766,103**	**766,789**
Under / (over) borrowing	**12,665**	**11,013**	**7,979**	**6,505**	**1,791**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Corporate Director of Resources reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

8 **The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Debt	237,955	480,884	633,252	768,105	768,792
Other long term liabilities	0	0	0	0	0
Total	237,955	480,884	633,252	768,105	768,792

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

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

Authorised limit	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Debt	237,955	485,575	637,943	772,796	773,483
Other long term liabilities	0	0	0	0	0
Total	237,955	485,575	637,943	772,796	773,483

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

HRA Debt Limit	2016/17 Actual £000s	2017/18 Probable £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
HRA debt cap	103,647	103,647	103,647	103,647	103,647
HRA CFR	101,956	101,956	101,956	101,956	101,956
HRA headroom	1,691	1,691	1,691	1,691	1,691

10 Treasury Management Limits on Activity

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

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

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposure UPPER limits	**2017/18 £000s**	**2018/19 £000s**	**2019/20 £000s**
on fixed interest rates based on net debt	485,575	637,943	772,796
on variable interest rates based on net debt	0	0	0

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change on a daily basis therefore it has been assumed that of the year end balances only £10m will be invested in fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2018/19				
	FIXED interest		**VARIABLE interest**	
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

GLOSSARY OF TREASURY TERMS

Term	Definition
Basis Point	1/100th of 1%, i.e. 0.01%
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.
DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

GLOSSARY OF TREASURY TERMS

ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
LIBID – London Interbank BID Rate	The interest rate at which London banks are willing to borrow from one another.
LIBOR – London Interbank Offer Rate	The interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.
MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

GLOSSARY OF TREASURY TERMS

Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
Repo – Reverse Repurchase Agreements	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

RUNNYMEDE BOROUGH COUNCIL
TREASURY MANAGEMENT PRACTICES

Practice	Title
TMP1	Risk Management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions

Version updated January 2018.

TMP 1
Risk Management

General Statement

The Corporate Director of Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Corporate Director of Resources will report at least annually on the suitability of these arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information systems.* In respect of each of the following risks, the arrangements will seek to ensure compliance with these objectives.

The investment and risk management criteria for any material non-treasury investments will be clearly set out in the Capital Strategy and/or Property Investment Strategy as appropriate.

1. Credit and counterparty risk management

Credit and Counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods, and techniques referred to in TMP4 Approved instruments methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organizations from which it may borrow, or with whom it may enter into other financing arrangements.

2. Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business objectives will therefore compromised.

The Corporate Director of Resources will ensure that the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

3. Interest Rate Risk Management

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information systems.*

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a significant degree of flexibility to take advantage of the unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

4. Exchange Rate Risk Management

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

6. Refinancing Risk Management

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at that time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

7. Legal and Regulatory Risk Management

This is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

8. Fraud, error and corruption, and contingency management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

9. Price / Market risk management

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2
Performance measurement

The Council is committed to the pursuit of Value for Money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the Schedule to this document.

The methodology and criteria for assessing the performance and success of non-treasury investments will be clearly set out in the Capital Strategy and/or Property Investment Strategy as appropriate.

TMP 3
Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Management Schedule.

TMP 4
Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Schedule and Annual Investment Strategy, and within the limits and parameters defined in TMP1 *Risk management*.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under the Markets In Financial Instruments Directive 2014 (MIFID II) and has set out in its Annual Treasury Management Strategy those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5
Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this is based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Corporate Director of Resources will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Corporate Director of Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Corporate Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the Treasury Management Schedule.

The Corporate Director of Resources will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Treasury Management Schedule.

The delegations to the Corporate Director of Resources in respect of treasury management are set out in the Treasury Management Schedule. The Corporate Director of Resources will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

The governance requirements for decision making and arrangements to make sure that appropriate due diligence is carried out to support the decision making in relation to non-treasury investments will be clearly set out in the Capital Strategy and/or Property Investment Strategy as appropriate.

TMP 6
Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

The Corporate Management Committee will receive regular monitoring reports on treasury management activities and risks.

The Overview and Scrutiny Select Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Council will receive a report on the treasury management indicators set out in the CIPFA Code and associated guidance.

The present arrangements and the form of these reports are detailed in the Treasury Management Schedule.

The reporting and management information requirements for non-treasury investments will be clearly set out in the Capital Strategy and/or Property Investment Strategy as appropriate, along with where and how often monitoring reports are taken.

TMP 7
Budgeting, accounting and audit arrangements

The Corporate Director of Resources will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management which will bring together the costs of running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 P*erformance management*, and TMP4 *Approved instruments, methods and techniques*. The Corporate Director of Resources will exercise effective controls over the budget, and will report on changes required in accordance with TMP6 *Reporting requirements and management information arrangements.*

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8
Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Corporate Director of Resources and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Corporate Director of Resources will ensure that they are adequate for the purposes of monitoring liquidity in compliance with TMP1*(2) Liquidity risk management.* The present arrangements for preparing cash flow projections are set out in the Treasury Management Schedule.

TMP 9
Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Treasury Management Schedule.

TMP 10
Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Corporate Director of Resources will recommend and implement the necessary arrangements.

The Corporate Director of Resources will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance (Councillors) should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are set out in the Treasury Management Schedule.

Training and qualification requirements, including how relevant knowledge and skills in relation to how non-treasury investments will be arranged will be clearly set out in the Capital Strategy and/or Property Investment Strategy as appropriate.

TMP 11
Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of costs and benefits. It will also ensure that the terms of appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Corporate Director of Resources and details of the current arrangements are set out in the Treasury Management Schedule.

TMP 12
Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management functions and activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Schedules, are considered vital to the achievement of proper corporate governance in treasury management and the Corporate Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.