Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Wednesday 6 February 2019 at 7.30pm

Council Chamber
Runnymede Civic Centre, Addlestone

Members of the Committee

Councillors M J Maddox (Chairman), P J Taylor (Vice-Chairman), S L Dennett, Mrs L M Gillham, T J F E Gracey, N M King, Mrs Y P Lay, S M Mackay 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.

(N.B. PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING)

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.

'see overleaf'

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 not extend to those in the public seating area.

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

		Page
1.	FIRE PRECAUTIONS	4
2.	NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP	4
3.	MINUTES	4
4.	APOLOGIES FOR ABSENCE	7
5.	DECLARATIONS OF INTEREST	7
6.	TREASURY MANAGEMENT MID-YEAR REPORT	7
7.	2019/20 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION	22
8.	EXCLUSION OF PRESS AND PUBLIC	58

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

a) Exempt Information

9. DEALING WITH ILLEGAL ENCAMPMENTS 59

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 4 October 2018 (at Appendix ‘A’).

Runnymede Borough Council **APPENDIX 'A'**

OVERVIEW AND SCRUTINY SELECT COMMITTEE

4 October 2018 at 8.41.p.m.

Members of the Committee present : Councillors M J Maddox (Chairman), P J Taylor (Vice-Chairman) S L Dennett, Mrs E Gill, T J F E Gracey, N M King and P S Sohi

Member of the Committee absent: Councillors Mrs Y P Lay and S M Mackay

275 FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

276 NOTIFICATION OF CHANGE TO COMMITTEE MEMBERSHIP

The Group mentioned below had notified the Chief Executive of their wish that the change listed below be made to the membership of the Committee. The change was for a fixed period ending on the day after the meeting and thereafter the Councillor removed would be reappointed.

Group	Remove from Membership	Appoint Instead
Runnymede Independents Residents' Group	Councillor Mrs L M Gillham	Councillor Mrs E Gill

The Chief Executive had given effect to this request in accordance with Section 16(2) of the Local Government and Housing Act 1989.

277 MINUTES

The Minutes of the meeting of the Committee held on 5 July 2018 were confirmed and signed as a correct record.

278 REVIEW OF THE COUNCIL'S PLANNING SERVICE

The Planning Advisory Service (PAS) had carried out a Peer Challenge Review between 12 – 14 September 2018. Members were provided with a brief update of its outcome prior to receipt of the PAS report.

Members were pleased to note that the summary of PAS findings were positive. The headlines of their findings were as follows:

- That there were lots of really interesting things happening – bringing opportunities in for the Borough
- That the Council had a good professional planning service performing strongly against measures
- That the Council had positively progressed its Emerging Local Plan under challenging circumstances
- That the national Housing Delivery Challenge was recognised by the Council and there were some core skills to build on
- That there were opportunities for more collaborative community engagement and also a significant opportunity to further develop partnership working moving forward, and

- There were opportunities for Officers and Councillors to work more closely together moving forward

Members agreed that the exercise had been of value and looked forward to receiving more details from the PAS report in due course.

Members were particularly pleased to note that the good work of planning Officers had been recognised.

Chairman

(The meeting ended at 9.01.p.m.)

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 from the Democratic Services Officer 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 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.

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.

6. **TREASURY MANAGEMENT MID-YEAR REPORT 2018/19 (RESOURCES)**

Synopsis of report:

To consider an item on treasury activity for the first six months of the 2018/19 financial year and the Minute of the Corporate Management Committee on this item.

Recommendation:

For information.

An item that was submitted to the meeting of the Corporate Management Committee on 15 November 2018 setting out the treasury activity for the first six months of the 2018/19 financial year is at Appendix 'B'.

The Minute of the meeting of the Corporate Management Committee on 15 November 2018 on this item is at Appendix 'C'.

(For information)

Background papers

None

APPENDIX 'B'

AGENDA ITEM – CORPORATE MANAGEMENT COMMITTEE – 15 NOVEMBER 2018

TREASURY MANAGEMENT MID-YEAR REPORT 2018/19 (RESOURCES)

Synopsis of report: **The report sets out the treasury activity for the first six months of the 2018/19 financial year.**

Recommendation: **The money held in the Available for Sale Financial Instruments Reserve at 1 April 2018 be transferred into a new earmarked reserve to counteract the impact of any future fluctuations in the value of investments.**

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
- A mid year Treasury Management Report (this 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.

1.7 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 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 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 Corporate Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

1.9 The Council's Treasury Management Strategy, Annual Investment Strategy and Prudential indicators for 2018/19 were considered by the Corporate Management Committee at its meeting held on 25 January 2018, and the Overview and Scrutiny Select Committee at its meeting on 7 February 2018 before final approval by full Council on 1 March 2018.

1.10 The Department for Communities and Local Government (DCLG) *Guidance on Local Government Investments* recommends that local authorities amend their investment strategies in light of changing internal or external circumstances.

1.11 On 17 May 2018 Full Council approved a revised set of Prudential and Treasury Management indicators for 2018/19 to facilitate the earlier purchase of property acquisitions, bringing them forward in the Capital Programme (along with the associated borrowing requirement) from 2019/20 to 2018/19.

2. Economy and Outlook for Interest Rates

<u>Treasury Management Consultants</u>

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. Following a tendering exercise carried out during the summer of 2016, Link Asset Services (Link) were awarded a new contract from 1 October 2016. This contract is initially for the period of three years with an option for a further two. Although Link provide advice to the Council, responsibility for final decision making remains with the Council and its officers at all times.

<u>Economic Update</u>

2.2 The Council's treasury advisor, Link Asset Services, has provided the economic update in the following paragraphs.

2.3 UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecasts that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

2.4 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated

Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

2.5 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

2.6 In the political arena, there is a risk that the current Conservative minority Government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's Government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

2.7 USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

2.8 EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

2.9 CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.10 JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Outlook for Interest Rates

2.11 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

2.12 The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

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

3 Annual Investment Strategy

3.1 The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.

3.3 The Council held £40.0m of investments as at 30 September 2018 (£40.4m at 31 March 2018) and the investment activity during the first six months of the year can be seen from the table below:

Investment Sector	Outstanding at 1 April 2018	New Investments	Investments Recalled	Outstanding at 30 Sept 2018
	£000	£000	£000	£000
Specified Investments				
Banking sector	12,000	11,000	12,000	11,000
Building societies	9,500	5,000	2,500	12,000
Local Authorities	12,000	6,000	10,000	8,000
Central Government	0	75,000	75,000	0
Money Market Funds	2,404	65,933	63,747	4,590
Unspecified Investments				
Pooled Funds & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	489	11	1	499
	40,393	**162,944**	**163,248**	**40,089**

3.4 A full list of investments held at the 30 September is set out at Appendix '1'.

Investment income and debt interest

3.5 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income gained by the Council are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales, and timing of capital projects – also has a significant impact on cash flows.

3.6 The original estimate for investment income for 2018/19 was based on the Council achieving an **average** interest rate of 0.60%. This took into account a base rate of 0.50% through to December 2018 where it was anticipated to rise to 0.75% and remain there for the remainder of the year. It was also assumed that there would be a need to keep money short for long periods of time for potential property purchases.

3.7 The following table shows the average interest rates generated during this period (excluding loans to RBC Companies):

	Weighted Average Interest Rate (%)
April	0.81
May	0.77
June	0.87
July	0.88
August	0.94
September	0.97
2018/19 average	**0.87**

3.8 The average rate of interest is in line with the Council's benchmark rates as follows:

Index	Annualised Return %
7 day LIBID average	0.44
Average Bank Base rate	0.58
3 month LIBID average	0.61

6 month LIBID average	0.71
Runnymede average (from above table)	**0.87**
12 month LIBID average	0.94

(**LIBID -** The London Interbank Bid Rate is a bid rate; the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks).

3.9 One of the reasons the favourable interest being received is due to the Council's investment in pooled funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. These offer enhanced returns over the longer term but are potentially more volatile over the shorter term. The market value of these investments at 30 September and their returns for the first 6 months were as follows:

Pooled Funds & Funding Circle	Original Investment £	Value 30 Sept 2018 £	Annualised Return %
CCLA Property Fund	2,000,000	2,371,352	3.19
CCLA Diversified Income Fund	2,000,000	2,022,578	3.09

3.10 Based on current interest and borrowing rates, the revised estimate for investment income and debt interest for the current year is now estimated to be as follows:

	Original Estimate £'000	Revised Estimate £'000
Gross external investment income	333	472
Interest on loans to RBC companies	1,349	1,084
Interest paid on deposits and other balances	(1)	(6)
Net Investment Income	**1,681**	**1,550**
Debt Interest	(14,584)	(14,371)
Management Expenses	(75)	(230)
Net Investment Income / (Debt interest)	**(12,978)**	**(13,051)**

4 Debt Management Strategy

4.1 The Council's capital and treasury plans include spending large sums on property investments. With interest rates set to rise during the year, and the uncertainty surrounding the eventual Brexit deal and its effects on the markets and the need to bolster the Council's income position to allow for the regeneration of parts of Egham, full Council agreed to bring forward £100 million set aside in 2019/20 to the current financial year to secure the required income generation targets earlier.

4.2 This change has had a profound effect on the borrowing activity for the current year as can be seen from the table below:

Investment Sector	Outstanding at 1 April 2018	New Borrowing	Borrowing Repaid	Outstanding at 30 Sept 2018
	£000	£000	£000	£000
HRA - PWLB	101,956	-	-	101,956
General Fund – PWLB	249,336	160,000	-	409,336
General Fund – Non PWLB	5,500	30,000	20,500	15,000
	356,792	**190,000**	**20,500**	**526,292**

4.3 A full list of borrowings held at the 30 September is set out at Appendix '2':

4.4 The £190m new borrowing undertaken so far this year is broken down as follows:

	End date	No of years	Interest Rate	Total Borrowing £'000
Derbyshire CC Pension Fund	29/06/18	2wks	0.50%	10,000
City of Edinburgh Council	29/06/18	2wks	0.50%	5,000
West Yorkshire Combined Authority	21/12/18	5½ mth	0.60%	15,000
PWLB	02/05/21	3	1.68%	40,000
PWLB	23/05/68	50	2.45%	20,000
PWLB	25/05/66	48	2.46%	40,000
PWLB	29/05/65	47	2.45%	40,000
PWLB	30/05/67	49	2.40%	20,000

4.5 These rates compare favourably to the average PWLB rates during the period which were as follows:

	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

4.6 The Council has traditionally borrowed via maturity loans, meaning that no repayment of principal is due until the end of the loan period. To ensure that the required monies are available when needed, the Council has to set aside funds each year to repay those loans. As the set aside rises, Officers need to invest that cash with institutions that meet the credit rating in the Treasury Management Strategy. The Corporate Director of Resources has previously recommended that, as investment income increases, it would benefit the Council to move new borrowing to annuity loans which start repaying the principal sums straight away. Under these vehicles in the early years most of the sum paid covers interest and a small amount of repayment of the sum borrowed (exactly the same as a normal building society repayment mortgage).

4.7 In late 2017 Officers met with employees from a private sector pension fund with a view to investigating an offer of an annuity loan to fund some of the Runnymede developments once some of the investment income from the Council's developments started flowing into the Council. The offer would mean that the Council would borrow short term for 3 years via a maturity loan and then replace it with the proposed annuity loan hedging against interest rate rises and funding the existing capital programme by moving to annuity loans much earlier than planned.

4.8 Forecasting interest rates accurately to May 2021 is clearly not possible. However, based on forecasts from Link and Capital economics in May 2018, 50 year PWLB rates were set to rise to between 3.15% - 3.20% by March 2020 (40 year rates are currently more expensive). Officers' modelling showed that if the rate offered by the company was below 3%, the loan would offer good value for money. In the week leading up to 2 May, gilt rates fell so as the final offer to borrow £40m, in three years' time, for a term of 40 years was below this threshold at 2.884%, Officers took the decision to take advantage of the deal. For comparison purposes, the equivalent

PWLB rate for a 40 year annuity loan, as at the date of the deal, was 2.9% (the Government offer Runnymede a “certainty rate” reduction to 2.7%). However, HM Treasury do not guarantee this discount beyond 2018/19.

5. Treasury Management Indicators

5.1 The CIPFA Code on Treasury Management requires the Council to approve a set of treasury management indicators by which the Council can measure its exposure to risk. The Council’s treasury indicators were approved by Council on 1 March 2018. On 17 May 2018 Full Council approved a revised set of Prudential and Treasury Management indicators for 2018/19 to facilitate the earlier purchase of property acquisitions, bringing them forward in the Capital Programme (along with the associated borrowing requirement) from 2019/20 to 2018/19.

5.2 During the financial year to date, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices. The following paragraphs show the position as at 30 September against each of the indicators.

Interest rate exposures

5.3 This indicator is set to control the Council’s net exposure (taking borrowings and investments together) to interest rate risk. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding are:

Upper limits proposed on fixed and variable rate interest rate exposures expressed as the principal sums outstanding in respect of borrowing		
	Target £’000	**Actual £’000**
Upper limit on fixed interest rate exposures	737,943	486,203
Upper limit on variable interest rate exposures	0	0

5.4 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.

5.5 The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As all the Council’s investments mature within the year they are classed as variable the Council has no variable rate borrowings to offset these against, hence the negative figure in the table above.

Maturity structure of borrowing

5.6 This indicator is set to control the Council’s exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing were set at their maximum because at the time the proposals for taking on the housing debt had not been finalised and it was therefore important to maintain this flexibility to allow the optimum debt structure to be put in place.

Proposed upper and lower limits on the maturity structure of fixed rate borrowing			
	Upper	**Lower**	**Actual**
Under 12 months	25%	0%	3%
12 months and within 24 months	25%	0%	7%
24 months and within five years	25%	0%	2%

Five years and within 10 years	50%	0%	6%
10 years and above	100%	0%	82%

5.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

5.8 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The proposed limits on the total principal sum invested to final maturities beyond the period end are:

Principal sums invested for periods longer than 364 days		
	Target £'000	**Actual £'000**
Limit on principal invested beyond one year	1,000	0

Borrowing limits

5.9 The Council's borrowing limits were set at the start of the financial year and are as follows:

Borrowing Limits	
	Target £'000
Approved Authorised Limit	737,943
Approved Operational Boundary	733,252
Actual borrowing as at 30 September	**526,292**

5.10 The Authorised Limit is a limit on the maximum amount the authority expects to borrow at any one point in time. The limit includes short-term borrowing. The Operational Boundary is the term used to describe the most likely scenario of cash flow movements and equates to the maximum level of external debt projected by the authority's estimates. The Authorised Limit differs in that it provides over and above the operational boundary for unusual cash movements (hence, one is a limit, the other a boundary).

6. Other Treasury Related Items

Bank Ringfencing

6.1 The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing".

6.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and Small and Medium Enterprise (SME) deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

6.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

IFRS9 accounting standard

6.4 This accounting standard came into effect from 1st April 2018 and is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. Officers are currently investigating the effects of these changes with the Council's treasury advisors.

6.5 Traditionally, the surpluses and deficits on the capital values of the two CCLA investments have been held in the Available for Sale Financial Instruments Reserve on the balance sheet so that any unrealised changes in the asset values do not affect the Council's bottom line. From 1 April 2018 any changes in value must now be accounted for in the Comprehensive Income and Expenditure Statement as they arise rather than being deferred until they are sold.

6.6 With the country due to leave the European Union on the last day of the financial year, there is the risk that this will be a day of high market volatility which could have a significant impact on the investments value and therefore significant impact on the revenue account. CIPFA have been lobbying the Government for a statutory override of this new requirement but at the current time, it is uncertain as to whether this would be agreed (temporarily or otherwise).

6.7 Even if no statutory override is agreed, Officers are seeking to retrospectively transfer the £323,000 net gain in the Available for Sale Financial Instruments Reserve at the 1 April 2018 (the date on which it is abolished) into a new earmarked reserve to counteract the impact of any future fluctuations in value.

Money Market Reform

6.8 The final stages of the Money Market Form regulations become effective on 21 January 2019. This will see a majority of CNAV (Constant Net Asset Value) liquidity funds converting to LVNAV (Low Volatility Net Asset Value) fund status. This will mean that they are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the Fund does not deviate from the dealing NAV by more than 20 basis points (bps). This is a more stringent approach, as currently on a CNAV Fund they have a 50bps collar.

6.9 The Council's current Annual Investment Strategy does not differentiate between different classes of NAV funds so no revisions to the strategy are required. However, Officers will monitor the situation over the coming months and will recommend any amendments in the 2019/20 strategy if appropriate.

Other issues

6.10 In order to streamline some of its back office processes and to assist in closing the Council's accounts Officers are trialling a new computerised treasury management system. The new system has the capability of recording all the Council's treasury deals and contains a cashflow module that will replace the manual processes and spreadsheets currently being used. Once this system has been fully tested, including a period of dual running to the end of the year, the Council's Treasury Management Practices (TMP) and Schedules (TMS) for 2019/20 will be updated accordingly.

7. Legal Implications

7.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 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 when carrying out their treasury management functions.

7.2 Section 15 of the Local Government Act 2003 provides the power for the Government to issue guidance about investments to which authorities are to have regard. This report takes account of the current and proposed guidance issued by the Government.

7.3 The Government has issued Regulations to require investment in share capital to be treated as capital expenditure. The Government state that this acts as a disincentive to local authorities to make such investments, as they would consume the authority's capital resources. However, the Government has excluded investments in money market funds, multilateral development banks and real estate investment trusts (REITs) from this definition, as it has no wish to deter authorities from considering these investments.

(To resolve)

Background papers

None

Appendix '1'

Investments as at 30 Sept 2018			ORIGINAL		
	£'000		TERM	MATURITY	%
Banks					
Access Accounts					
Term Deposits					
Bank of Scotland	2,000		6 mth	16 Nov 2018	0.750
Certificates of Deposit					
Close Brothers	1,000		5 mth	22 Feb 2019	0.850
DZ Bank	1,000		9 mth	19 Feb 2019	0.730
National Australian Bank	1,000		1 yr	15 May 2019	0.750
Nordea Bank AB	1,000		9 mth	18 Feb 2019	0.710
Sumitomo Mitsui Bank	2,000		6 mth	16 Jan 2019	0.820
Sumitomo Mitsui Bank	1,000		6 mth	09 Nov 2018	0.720
Sumitomo Mitsui Bank	1,000		6 mth	11 Mar 2019	0.860
Toronto Dominion Bank	1,000		1 yr	15 May 2019	0.790
Total Banks	**11,000**	**27%**			
Building Societies					
Coventry BS	2,000		1 yr	03 Dec 2018	0.670
Coventry BS	1,000		6 mth	11 Jan 2019	0.670
Coventry BS	1,000		6 mth	08 Feb 2019	0.740
Leeds BS	2,500		356 dys	21 Jan 2019	0.730
Nationwide BS	1,000		6 mth	07 Jan 2019	0.660
Nationwide BS	2,000		6 mth	18 Jan 2019	0.680
Yorkshire BS	2,500		364 dys	14 Jan 2019	0.610
Total Building Society	**12,000**	**30%**	(50% Limit)		
Local Authorities					
Leeds City Council	2,000		7mth	17 Apr 2019	0.800
Salford City Council	2,000		6 mth	08 Nov 2018	0.700
South Ayrshire Council	2,000		1 yr	23 Sep 2019	0.650
Walsall Metropolitan Borough District	2,000		1 yr	30 Jan 2019	0.700
Total Local Authorities	**8,000**	**20%**			
Money Market Funds					
Aviva Investors Sterling Liquidity Fund - Class 2	-		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Deutsche Global Liquidity Managed GBP - Class B	-		********** On Call **********		Variable
Goldman Sachs Sterling Liquid Reserves Institutional	2,590		********** On Call **********		Variable
Total Money Market Funds	**4,590**	**11%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 1 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 1 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**10%**			
Funding Circle					
Lending to small and medium sized companies	499		**** up to 5 years ****		Variable
Total Other Investments	**499**	**1%**	(with the ability to sell loans)		
Total Investments	**40,089**				

Appendix '2'

Borrowings as at 30 Sept 2018

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500502 (part)	1,956	10	46,944	28 Mar 2022	2.40%
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	101,956		**3,425,944**	**Average Rate:**	**3.36%**
General Fund					
West Yorkshire Combined Authority	15,000	5mths	43,151	21 Dec 2018	0.60%
PWLB - 504311	5,000	5	98,500	17 Aug 2020	1.97%
PWLB - 507406	40,000	3	672,000	02 May 2021	1.68%
PWLB - 500502 (part) - Appropriated from HRA	1,336	10	32,064	28 Mar 2022	2.40%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	15	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	15	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
	424,336		**9,514,915**	**Average Rate:**	**2.24%**
Total Borrowings	**526,292**		**12,940,859**	**Annual Interest**	

Advance Loan Deal (Refinancing existing loan)	**£'000**	**(Years)**		**MATURITY**	**%**
Phonenix Life Limited	40,000	40	Annuity Basis	02 May 2061	2.88%

	£'000	
Authorised Borrowing Limit 2018/19	737,943	(approved 17 May 2018 - Special Council Meeting)
Borrowing to date	(526,292)	
Authorised Borrowing remaining	**211,651**	

APPENDIX 'C'

MINUTE OF CORPORATE MANAGEMENT COMMITTEE – 15 NOVEMBER 2018

TREASURY MANAGEMENT MID-YEAR REPORT 2018/19

The Committee noted a report setting out the treasury activity for the first six months of the 2018/19 financial year.

This included an economic update from the Council's Treasury Management adviser, the outlook for interest rates, investments and borrowing activity at 30 September 2018 and the revised estimate for investment income and debt interest. It was anticipated that interest rates would rise gradually up until March 2021 although this would be influenced by events in other major economies.

The Council had operated well within the limits of its Treasury Management Indicators and had complied with all the relevant policies. Yield on investments was performing well with security being paramount.

The Director of Resources reported that following significant representations from local authorities and other interested bodies, the Government had agreed a statutory override for the next 5 years which exempted the Council from the requirement to follow the new IFRS9 accounting standard.

The Mid Year Report would also be given an in-depth review by the Overview and Scrutiny Select Committee at its next meeting.

7. **2019/20 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 2019/20.

Recommendation to Full Council on 12 February 2019

i) The proposed 2019/20 Treasury Management Strategy set out in this report encompassing the Annual Investment Strategy at Appendix 'D' be approved

ii) The Prudential and Treasury Management Indicators for 2019/20 set out in Appendix 'E' be approved

iii) The revised Treasury Management Practices in Appendix 'F' be approved

iv) The authorised limit for external borrowing by the Council in 2019/20, be set at £720,939,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003

v) 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. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

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

1.5 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 Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

1.6 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition (the TM Code) and the Prudential Code (the 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 MHCLG Guidance.

1.7 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 Management Strategy (this report)
- A mid year Treasury Management Report
- An annual Treasury Report

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

Capital Issues:
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues:
- Policy on the use of external service providers
- 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
- Treasury indicators which limit the risk and activities of the Council
- Other treasury matters (required under MHCLG Investment Guidance)

1.9 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).

1.10 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 24 January 2019.

1.11 A glossary of treasury terms is included in the Annual Investment Strategy to assist Members with some of the terms covered in this report.

2. Capital Strategy

2.1 Both the CIPFA Codes and the MHCLG Guidance recognise that authorities may make investments for policy reasons outside of normal treasury management activity i.e. service investments (held in the course of normal operations – including regeneration), or commercial investments taken for financial reasons (i.e. shares and loans in subsidiaries and Investment Properties).

2.2 Runnymede has for some time, produced an annual Capital Strategy. In order to address a growing concern over the number of service and commercial investments, the revised CIPFA Codes now make the production of a Capital Strategy a requirement for all local authorities. The aim of this is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite associated with the capital plans of the Council.

2.3 The Capital Strategy is reported separately from the Treasury Management Strategy Statement to ensure the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy shows:

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

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

2.5 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

2.6 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this TMS report.

3 Minimum Revenue Provision (MRP) Policy Statement

3.1 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.

3.2 To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year 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 principal on any borrowing undertaken. There isn't an earmarked reserve for MRP, it is represented in the accounts as increased cash.

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

3.4 Revised statutory guidance has been issued by the MHCLG which local authorities are required to have regard to which require the full Council to approve an MRP Statement in advance of each year. The aim of the MHCLG 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)

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

3.5 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 2019/20 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".

3.6 A change introduced by the revised MHCLG Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the Council had made no such VRP overpayments.

4 Treasury Management Strategy (TMS)

Treasury management consultants and training

4.1 The Council recognises that there is value in employing external providers of treasury management services in order to secure access to specialist skills and resources. Link Asset Services provide this service to the Council, although responsibility for final decision making remains with the Council and its officers at all times.

4.2 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.

4.3 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.

4.4 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.

The economy and prospects for interest rates

4.5 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 paragraphs gives Link's view on interest rates and the economy:

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

4.6 The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter of 2018. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

4.7 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment.

4.8 Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed funds rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year Treasury yields rise above 3.2% during October 2018 and also saw investors causing a sharp fall in equity prices as they sold riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

4.9 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crises, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

4.10 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.

4.11 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years. Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have back tracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

<u>The current treasury position and prospects for investment</u>

4.12 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

4.13 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 of 2022. With increasing rates, money will be kept in short term investments and as a result, the probable investment earnings rates for returns on investments placed for periods up to about three months during each financial year can be expected to be as follows:

	Base Rate	Investment return
2018/19	0.75%	0.85%
2019/20	1.25%	1.10%
2020/21	1.50%	1.60%
2021/22	2.00%	1.75%
2022/23	2.00%	2.00%

4.14 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 2019/20 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	252	232	484
Interest on loans to RBC companies	1,414	-	1,414
Interest paid on deposits and other balances	(6)	-	(6)
Net Investment Income	**1,660**	**232**	**1,892**
Debt Interest	(14,535)	(3,426)	(17,961)
Management Expenses	(35)	-	(35)
Net Investment Income / (Debt interest)	**(12,910)**	**(3,194)**	**(16,104)**

4.15 The estimate is based on achieving the assumed investment returns set out in paragraph 4.11, using the level of revenue and capital reserves for 2019/20 as set out in the latest capital and revenue budgets contained in the Medium Term Financial Strategy.

Policy on charging interest to the Housing Revenue Account (HRA)

4.16 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.

4.17 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.

Borrowing Strategy

4.18 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.

4.19 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 2019/20 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.

4.20 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*

4.21 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

4.22 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.

4.23 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.

4.24 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

4.25 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).

4.26 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).

4.27 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.

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

Annual Investment Strategy

4.29 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments 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. The Council recognises that investment in other financial investments taken for non-treasury management purposes, requires careful investment management and all such investments are covered in the Capital Strategy.

4.30 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 MHCLG Guidance place a high priority on the management of risk and require the Council to invest its funds prudently. This approach is inherent in our treasury management strategy.

4.31 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.

4.32 The MHCLG 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 2018/19 in March 2018 and an updated Strategy for 2019/20 is set out at Appendix ‘D’.

4.33 There are two changes to the proposed strategy for next year. The first is the removal of the requirement to limit investments in Building Societies to 50% of total funds invested. This was introduced at a time when the Council used unrated Building Societies, however with only four Building Societies now on the Council’s counterparty list, all of which are rated the same way as banks, this requirement is now surplus to requirements.

4.34 The second change is to clarify the Council’s use of Money Market Funds following the introduction of the European Money Market Fund Reforms. Money Market funds have now been separated into three fund types:

- Government Constant Net Asset Value (CNAV)
- Low Volatility Net Asset Value (LNAV) - NEW
- Variable Net Asset Value (VNAV)

The regulation changes revolve around structure, composition, valuation, liquidity requirements, liquidity fees/redemption gates, understanding investor behaviour and information reporting. CNAV funds must have at least 99.5% of their assets in public debt, secured with government debt or cash so their dealing price will not change (i.e. it will be constant). LVNAV funds are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points. All other funds are VNAV funds whose prices can change, so the principal sum could fluctuate on a regular basis.

4.35 The current Investment Strategy does not distinguish between these types of funds so clarification is required. The strategy has been amended to state that the Council will only use Constant and Low Net Asset Value Money Market Funds (CNAV / LVNAV). All of the Council’s existing Money Market Funds fall under the new LVNAV category.

5 Treasury Management Risks

5.1 Treasury management activity involves risks which cannot be eliminated but need to be managed. Treasury management risks could be defined as: The ongoing activity of adjusting the authority’s treasury exposures due to changing market or domestic circumstances, in order to manage risks and achieve better value in relation to the authority’s objectives. 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.

5.2 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. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

5.3 The MHCLG issued revised statutory guidance on Local Government Investments in 2018 (the Guidance), and this forms the structure of the Council's policies. The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. This means that first and foremost the Council must ensure the security of the principal sum invested (i.e. ensure the full investment is returned), then ensure that we have the liquidity we need (i.e. ensure we have the funds available when we need them), and only then should the yield on return be considered. In order to facilitate this objective the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition). The Council adopted the Code in March 2018 and applies its principles to all investment activity.

5.4 In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) which are set out at Appendix 'F' and in the Council's Statement of Accounts both of which can be found on the Council's website. The key risks are as follows:

- Credit and counterparty risk management
- Liquidity Risk Management
- Interest Rate Risk Management
- Exchange Rate Risk Management
- Inflation Risk Management
- Refinancing Risk Management
- Legal and Regulatory Risk Management
- Fraud, error and corruption, and contingency management
- Price / Market risk management

UK banks – ring fencing

5.5 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up at any time. Several banks are very close to the threshold already and so may come into scope in the future regardless.

5.6 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

5.7 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities, and any others choosing to opt up in the future, in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

6. Prudential and Treasury Management Indicators 2019/20

6.1 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.

6.2 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.

6.3 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.

6.4 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 certain mandatory prudential indicators.

6.5 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.

6.6 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'.

7 Legal Implications

7.1 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 MHCLG Investments Guidance when carrying out their treasury management functions.

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

7.3 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.

7.4 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.

7.5 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.

7.6 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."

8. Conclusions

8.1 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 Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

8.2 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 0.75% Bank Rate. As a consequence, The Council is not getting a material return from deposits but is benefitting from low borrowing rates.

8.3 It is easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk, this strategy ensures that any such risks are minimised and appropriately managed.

(To recommend to Full Council on 12 February 2019)

Background papers – None stated

Annual investment strategy
for the 2019/20 financial year

Introduction

1. The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2017 Edition) ("the TM 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 2018/19 in March 2018.

Investment Policy

4. In accordance with the above guidance from the MHCLG 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 treasury advisers 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 advisers 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 Link Asset Services, the Council's treasury advisers, 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 pounds 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				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Banks 1	16	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	364 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 day
Building Societies	19	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 (CNAV / LVNAV)	20	AAA	£6.0m	Liquid
Government bonds (gilts) and treasury bills	21	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. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £6m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high 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-

17. **Banks 2 –** Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

18. **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

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

Money market funds

20. 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.

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

21. 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.

22. 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 capital gain 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

23. 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.

24. 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;

25. 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

26. 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.

27. 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 £3 million (excluding any accrued interest).

28. 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).	37	AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds b) A financial institution that is guaranteed by the United Kingdom Government	30, 37	AAA N/A	£1.0m £1.0m	3 years 3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A
Investment in Property	33	Subject to the limits set out in the Capital Strategy		

Supranational bonds

29. 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

30. 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.

Pooled Funds and Collective Investment Schemes

31. 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.

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.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the Council's Capital Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives"

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 £3 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 32).

Planned Investment Strategy for 2019/20

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

(Negative) Rating Watch – Fitch Ratings
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.

Review for possible downgrade – Moody's (Standard & Poor's is very similar)
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

(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)
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.

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).

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS 2019/20

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
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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	**2017/18 Actual £000s**	**2018/19 Probable £000s**	**2019/20 Estimate £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**
HRA	5,395	3,704	7,771	7,300	1,300
Housing Services	331	934	951	951	951
Environment & Sustainability	482	701	2,205	2,222	2,000
Community Development	8,910	9,432	6,132	1,155	255
Corporate & Business					
- Non Financial Investments	153,984	290,678	11,084	308	0
- Other	488	11,717	47,036	47,550	5,523
Total	**169,590**	**317,166**	**75,179**	**59,486**	**10,029**
Financed by:					
Capital Receipts	25,641	20,106	11,882	8,989	2,826
Earmarked Reserves	0	0	1,500	1,147	1,000
Capital Grants & Contributions	787	957	545	535	535
Revenue	4,620	2,692	5,711	1,168	1,168
Net financing need for the year	**138,542**	**293,411**	**55,541**	**47,647**	**4,500**

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Non-financial investments	**2017/18 Actual £000s**	**2018/19 Probable £000s**	**2019/20 Estimate £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**
Capital Expenditure	153,984	290,678	11,884	308	0
Financing costs met	24,014	10,463	1,509	63	0
Net financing need for the year	**129,970**	**280,215**	**9,575**	**245**	**0**
Percentage of total net financing need	93.8%	95.5%	17.2%	0.5%	0%

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 and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
CFR: – HRA	101,956	101,956	101,956	101,956	100,000
– Non HRA	8,571	14,665	60,631	108,033	112,532
– non-financial investments	134,930	265,849	509,610	513,173	553,517
CFR at 1 April	**245,457**	**382,470**	**672,197**	**723,162**	**766,049**
Net financing need for the year (from above)	138,542	293,411	55,541	47,647	4,500
Less MRP/VRP and other financing movements	(1,529)	(3,684)	(4,576)	(4,759)	(4,950)
CFR at 31 March	**382,470**	**672,197**	**723,162**	**766,049**	**765,599**

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.

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA Balances	19,424	25,405	21,561	18,075	15,075
General Fund (GF) Balance	5,848	3,223	4,260	2,317	2,234
GF Earmarked reserves	4,960	5,960	3,664	2,185	1,593
Capital receipts	5,783	5,895	11,858	11,882	14,712
Other	5,837	4,492	0	0	0
Expected investments	**41,852**	**44,975**	**41,343**	**34,459**	**33,614**

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.

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.

	2017/18 Actual %	2018/19 Probable %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
HRA	39.27	32.18	32.05	31.67	31.43
Non-HRA	51.39	149.44	277.67	257.52	274.81

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

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	3,000	3,000	3,000

7 **Investment risk benchmarking** - The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 3, 6 or 12 month LIBID (The London Interbank Bid Rate – the rate at which a bank is willing to brrow from other banks).

8 **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.

9 **Current Portfolio Position** – 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.

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
External Debt					
Debt at 1 April	232,792	356,989	660,400	710,941	758,588
Expected change in debt	124,197	303,411	50,541	47,647	2,544
Actual gross debt at 31 March	**356,989**	**660,400**	**710,941**	**758,588**	**761,132**
CFR	382,470	672,197	723,162	766,049	765,599
Under / (over) borrowing	**25,481**	**11,797**	**12,221**	**7,461**	**4,467**

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

Within the above figures the level of debt relating to non-financial investment is:

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
Debt at 1 April	246,462	546,064	555,638	555,884	555,884
Percentage of total external debt	69.04%	82.69%	78.16%	73.28%	73.03%

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 2019/20 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.

10 **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	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA	101,956	101,956	101,956	101,956	100,000
Non HRA	8,623	14,665	60,630	108,033	112,533
Non-financial investments	246,213	543,778	548,353	548,599	548,599
Other long term liabilities	-	2,000	2,000	2,000	2,000
Total Operational Boundary	**356,792**	**662,399**	**712,939**	**760,588**	**763,132**

11 **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	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA	101,956	101,956	101,956	101,956	100,000
Non-HRA	8,623	14,665	60,630	108,033	112,533
Non-Financial Investments	246,213	543,778	548,353	548,599	548,599
Other long term liabilities	-	10,000	10,000	10,000	10,000
Total Authorised Limit	**356,792**	**670,399**	**720,939**	**768,588**	**771,132**

Separately, the Council was limited to a maximum HRA CFR through the HRA self-financing regime – known as the HRA debt cap. In October 2018 the Prime Minister announced a policy change of the abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date for the abolition was 29.10.18. The former capped limit has been reproduced below:

HRA Debt Limit	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 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	100,000
HRA headroom	1,691	1,691	1,691	1,691	3,647

12 **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	2018/19 £000s	2019/20 £000s	2020/21 £000s
on fixed interest rates based on net debt	660,400	710,940	758,588
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 2019/20				
	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.

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 2019.

TMP 1
Risk Management

General Statement

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

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 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.

In assessing Credit and counterparty risk the Council will use the lowest common denominator approach which uses the lowest minimum acceptable credit rating from any of the three rating agencies (Fitch, Moodys and Standard & Poors). Full details of how we use these ratings and what other processes we use to assess and limit these risks (e.g. diversification, sector limits, country limits etc) are set out in our Annual Investment Strategy.

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 use callable deposits, including Money Market Funds, will be used for short term cash requirements in the first instance.

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. Consideration will also be given to dealing from forward periods dependent upon market conditions.

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.

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Corporate Management Committee in the annual Review Report.

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.

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The monitoring officer (the Corporate Head of Law and Governance) has the duty to ensure that the treasury management activities of the Council are lawful. The Chief Financial Officer (the Corporate Director of Resources) has the duty to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position

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.

The Council will therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

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 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 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 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* r*isk 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 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.

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 paragraphs 3 and 7 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**	**Paras**
9.	DEALING WITH ILLEGAL ENCAMPMENTS	3 and 7

b) **Confidential Information**

(No reports to be considered under this heading)