Report of:	Meeting	Date	Item no.
Cllr Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Council	12 April 2018	9

Treasury Management Policy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2018/19

1. Purpose of report

1.1 Confirmation of the Treasury Management and Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy Statement 2018/19.

2. Outcomes

2.1 A Treasury Management and Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy Statement.

3. Recommendation/s

3.1 To approve the Treasury Management Policy, Annual Investment Strategy and MRP Policy Statement for 2018/19 as considered by Cabinet at their meeting 21 March 2018.

4. Background

4.1 A review of the Treasury Management Policy Statement, Treasury Management Practices, Strategy and MRP Policy Statement is undertaken each year and reported to Cabinet in March.

4.2 However in order to comply with the CIPFA Code of Practice for Treasury Management, the full Council is formally required to approve the Treasury Management and Annual Investment Strategy and the MRP Policy Statement for the forthcoming financial year.

5. Key issues and proposals

5.1 The Treasury Management Policy Statement, Annual Investment Strategy and the MRP Policy Statement are attached in Appendices 1 to 3.

Financial and legal implications	
Finance	The financial implications arising from the adoption of the Treasury Management and Annual Investment Strategy and the MRP Policy Statement have been reflected in the Revenue Estimates which were agreed by Council at their meeting 8 March 2018.
Legal	This report ensures that the legal requirements contained in the Codes of Practice and Local Government Act 2003 are fulfilled.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

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List of background papers:		
name of document	date	where available for inspection
None		

List of appendices

Appendix 1 – Treasury Management Policy Statement 2018/19
Appendix 2 – Treasury Management and Annual Investment Strategy 2018/19
Appendix 3 – Minimum Revenue Provision Policy Statement 2018/19

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Appendix 1

TREASURY MANAGEMENT POLICY STATEMENT 2018/19

Wyre Council defines its treasury management activities as follows: -

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

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Clauses to be formally adopted

4. The Council will create and maintain, as the cornerstones for effective treasury management:
   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities, and;
   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

5. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

6. The Council delegates responsibility for the implementation and regular monitoring of its treasury management practices to Cabinet, and for the execution and administration of treasury management decisions to the Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

7. The Council nominates the Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Appendix 2

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2018/19

1. Introduction

1.1 Background

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.

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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is currently required to receive and approves, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The Overview and Scrutiny Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies and their annual work programme reflects this requirement.

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

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial stability

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

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

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;

- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. All members were invited to attend a Treasury Management training session delivered by our Treasury Management Consultants prior to the Council meeting 18 January 2018 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management Consultants

The council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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

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

2. The Capital Prudential Indicators 2018/19 to 2020/21

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Prudential indicators, capital expenditure plans and how these plans are being financed by capital or revenue resources were approved by Cabinet at its meeting on 14 February.

2.1 Capital Expenditure

This prudential indicator is a summary of the council Capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	20019/20 Estimate £m	2020/21 Estimate £m
Total	21.929	15.644	10.158	1.998	2.080

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The following table below summarises how the previous table's capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow.

Financing of Capital Expenditure	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital receipts	345	147	44	345	427
Capital grants and Contributions	20,725	15,063	9,743	1,653	1,653
Revenue/Reserves	859	434	371	0	0
Net financing need for the year	0	0	0	0	0

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital sources. It is essentially a measure of the council's indebtedness and so its underlying borrowing need. Any capital expenditure, 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 indebtedness in line with each asset's 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 scheme include a borrowing facility by the PFI, PPP lease provider and so the council is not required to separately borrow for these schemes. The council does not currently have any such schemes within the CFR.

	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Financing Requirement					
Total CFR	11,548	11,452	11,356	11,260	11,164
Movement in CFR	-96	-96	-96	-96	-96

Movement in CFR represented by					
MRP and other financing movements	96	96	96	96	96

The council's Capital Financing Requirement is shown gross of Adjustment A (the unreconciled difference between the previous credit ceiling and the new CFR per the Prudential Code). In essence, Adjustment A provides a debt liability of £9.5m which the council is not required to repay through MRP.

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance 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 balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Fund balances/ reserves	18,001	18,993	19,598	17,707	15,272
Capital receipts	224	89	45	45	45
Provisions	1,390	1,832	2,349	2,349	2,349
Other					
Total core funds	19,615	20,914	21,992	20,101	17,666
Working capital*	2,636	2,636	2,636	2,636	2,636
Expected Investments	22,241	23,550	24,628	22,737	20,302

*Working capital balances shown are estimated year-end; these may be higher mid-year.

2.4 Minimum Revenue Provision Policy Statement

The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).
CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Policy Statement at Appendix 4.

2.4 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.

%	2016/17	2017/18	2018/19	2019/20	2020/21
Ratios	0.46	0.74	0.82	0.86	0.78

This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream.

2.5 Control of Interest Rate Exposure
Please see following paragraphs 3.3 and 3.4 and 4.4.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital programme. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1. Current portfolio position

The council's treasury portfolio position at 31 March 2017, with forward projections are summarised on the following table. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting any over or under borrowing.

£000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt						
Debt at 1 April	1,552	1,552	1,552	1,552	1,552	1,552
Expected change in Debt	0	0	0	0	0	0
Other Long Term Liabilities (OLTL)	8	8	8	8	8	8
Expected change in OLTL	0	0	0	0	0	0
Actual Gross Debt at 31 March	**1,560**	**1,560**	**1,560**	**1,560**	**1,560**	**1,560**
Capital Financing Requirement	**11,548**	**11,452**	**11,356**	**11,260**	**11,164**	**11,068**
Under/(over) borrowing	**9,988**	**9,892**	**9,796**	**9,700**	**9,604**	**9,508**

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 2017/18 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 or speculative purposes.
The Head of Finance reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Council is required to approve an 'authorised limit' and an 'operational boundary' for external debt. The Treasury Management indicators were approved by the Cabinet at its meeting on 14 February 2018 alongside the Prudential indicators, capital expenditure plans and how these plans are being financed by capital or revenue resources. The following Authorised Limit for external debt indicator has been reduced since its approval by Cabinet.

The operational boundary

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

Operational boundary	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt	13,548	13,548	13,548	13,548
Other long term liabilities	8	8	8	8
Total	13,556	13,556	13,556	13,556

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements.

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

The Council is asked to approve the following authorised limit:

Authorised limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt	20,000	20,000	20,000	20,000
Other long term liabilities	0	0	0	0
Total	20,000	20,000	20,000	20,000

3.3. Prospects for Interest Rates

The council has appointed Link Asset Services (formerly Capita Asset Services) as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates and provide an economic commentary as follows:-

Annual Average %	**Bank Rate %**	**PWLB Rates %**			
		5 year	**10 year**	**25 year**	**50 year**
March 2018	0.50	1.90	2.50	2.80	2.60

Annual Average %	Bank Rate %	PWLB Rates %			
		5 year	10 year	25 year	50 year
June 2018	0.75	2.00	2.50	2.90	2.70
Sept 2018	0.75	2.10	2.60	3.00	2.80
Dec 2018	1.00	2.10	2.70	3.10	2.90
March 2019	1.00	2.20	2.70	3.20	3.00
June 2019	1.00	2.30	2.80	3.20	3.00
Sept 2019	1.00	2.30	2.80	3.30	3.10
Dec 2019	1.25	2.40	2.90	3.30	3.10
March 2020	1.25	2.40	3.00	3.40	3.20
June 2020	1.25	2.50	3.00	3.50	3.30
Sept 2020	1.50	2.50	3.10	3.50	3.30
Dec 2020	1.50	2.60	3.10	3.60	3.40
March 2021	1.50	2.60	3.20	3.60	3.40

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase the Bank rate only twice more by 0.25% by 2020 to end at 1.00%. At its February 20189 meeting, there was no change in Bank Rate but the forward guidance changed significantly to warn of “earlier, and greater than anticipated” rate of increases in Bank Rate compared to their previous forward guidance. The Link Asset Services forecast as above includes increases in the Bank Rate of 0.25% in May and November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve (Fed) has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature. There has also been a sharp selloff in equities and bonds in February 2018 that has given further impetus to a rise in bond yields.

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

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

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.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and cause UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4th March and the anti EU populist Five Star party is currently leading in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and to the individual respective countries. Hungary will also hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump.
- A sharp Chinese downturn and its impact on emerging market countries.

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

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

Investment and borrowing rates

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

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

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

3.4. Borrowing Strategy

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.

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

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

Any decisions will be reported to Council at the next available opportunity.

3.5 Policy in Borrowing in Advance of Need

The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of such funds. Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

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

a) The generation of cash savings and/or discounted cash flow savings;
b) Helping to fulfil the treasury strategy;
c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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 investment are likely to be lower than rates paid on current debts.

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

4. Annual Investment Strategy

4.1 Investment policy

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

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

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both 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 opinions of the markets. To achieve this consideration the council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

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.

Investment instruments identified for use in the financial year are listed in Treasury Management Practices (TMP) Schedule 1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the council's treasury management practices – schedules.

4.2 Creditworthiness Policy

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of

CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow 5 years (only Local Authorities)
- Dark Pink 5 years for Enhanced Cash Funds with a credit score of 1.25
- Light Pink 5 years for Enhanced Cash Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used

Organisation	**Minimum credit criteria / colour band**	**Max Amount per institution**	**Max. maturity Period**
Term deposits with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
Term Deposits with Other Banks	Orange Red Green	£6m £6m £6m	Up to 1 year Up to 6 months Up to 100 days
Certificates of Deposit with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
UK Local Authorities	Yellow	£6m £6m	Up to 5 years Up to 1 year
Enhanced Cash Funds with credit score of 1.25	Dark pink / AAA	£6m	liquid
Enhanced Cash Funds with credit score of 1.5	Light pink / AAA	£6m	liquid
Money Market Funds- CNAV	AAA	£6m	liquid

* Part nationalised banks

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

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

All credit ratings will be monitored weekly but the council is alerted to changes to ratings of all three agencies through the use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in the downgrade of an institution or removal from the council's lending list.

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

4.3 Country Limits

The council has determined that it will only use approved counterparties from countries, other than the UK, with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at 15 January 2018 are shown in Annex 1. This list will be added to, or deducted from, by officers should ratings change prior to any investments being made outside of the UK.

4.4 Investment Strategy

In-House Funds

Investments will be made with reference to the level of earmarked reserves and cash flow requirements and the outlook for short term interest rates (i.e. rates for Investments up to 12 months).

Investment returns expectations

The Bank Rate is forecast to remain unchanged at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are as follows: -

- 2017/2018 0.50%
- 2018/2019 0.75%

- 2019/2020 1.00%
- 2020/2021 1.25%

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

- 2017/2018 0.40%
- 2018/2019 0.60%
- 2019/2020 0.90%
- 2020/2021 1.25%
- 2021/2022 1.50%
- 2022/2023 1.75%
- 2023/2024 2.00%
- Later years 2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP grows, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively. The council has determined the budget for investment returns at 0.58% on investments placed during the 2018/19 financial year. This was based on the current investment profile.

4.5 Investment treasury indicator

There are currently no plans for funds to be invested for a period 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. For its cash flow generated balances, the council will seek to utilise its instant access and notice accounts, money market funds, short rated deposits (overnight to 100 days) and 6 month deposits in order to benefit from compounding of interest.

4.6 Investment risk benchmarking

This council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID (London Interbank Bid Rate).

4.7 End of year investment report

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

4.8 Non- treasury investments

This council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. This council does not currently have any such investments however it will ensure that all of its investments are covered in the capital programme, investment strategy or equivalent and will set out, where relevant, the council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management. The council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the council's risk exposure where applicable.

Annex 1

Approved Countries for Investment (as at 15/01/18)

This list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating from Fitch, Moody's and Standards & Poor are shown) and also (except – at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- U.K.

AA-

- Belgium
- Qatar

Appendix 4

MINIMUM REVENUE PROVISION POLICY STATEMENT 2018/19 (England and Wales)

1. The Council's Adopted Approach

The council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2018/19 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

All expenditure reflected within the debt liability at 31 March 2008 will under delegated powers be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (Asset Life Method). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives