Appendix 3

TREASURY MANAGEMENT POLICY AND STRATEGY 2019/20

CONTENTS

1. **INTRODUCTION**
1.1. Background
1.2. Reporting Requirements
1.3. Treasury Management Strategy for 2019/20
1.4. Treasury Management Policy Statement
1.5. Current Portfolio Position

2. **BORROWING STRATEGY**
2.1. General Fund Borrowing Position and Strategy for 2019/20
2.2. Housing Revenue Account Borrowing Position and Strategy for 2019/20
2.3. Policy on Borrowing in Advance of Need
2.4. Debt Rescheduling
2.5. Interest Rate Risk & Continual Review

3. **MINIMUM REVENUE PROVISION POLICY STATEMENT**

4. **ANNUAL INVESTMENT STRATEGY**
4.1. Annual Investment Strategy for 2019/20
4.2. Investment Policy – Management of Risk
4.3. Sovereign Credit Ratings
4.4. Creditworthiness Policy
4.5. Other Limits
4.6. Approved Methodology for adding & removing counterparties
4.7. Investment Risk Benchmarking

5. **OTHER TREASURY MATTERS**
5.1. Banking Services
5.2. Training
5.3. Policy on the use of External Service Providers
5.4. Lending to Third Parties
5.5. Updates to Accounting Requirements

ANNEXES:

Annex A Counterparty List

Annex B Economic Overview & Prospect for Interest Rates

Annex C Prudential & Treasury Indicators

Annex D Scheme of Delegation

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 counterparties or instruments commensurate with the council's 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.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue spending 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 holding 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.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

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."

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry for Housing Communities & Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the 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 investment plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The Capital Strategy is being reported separately.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a Capital Strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risks are managed;
- the implications for future financial sustainability.

The aim of the Capital Strategy is to ensure that all members on the full Council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures 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 will show:

- 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.

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.

Where the council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

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.

1.2.2 Treasury Management reporting

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

a. Prudential and treasury indicators, and treasury strategy (this report) - The first, and most important report, is forward looking and covers:

  - the capital investment plans, (including prudential indicators);
  - a Minimum Revenue Provision (MRP) 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 Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury management report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

This Council delegates responsibility for implementation and monitoring treasury management to Policy, Resources & Growth Committee (PR&G) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. PR&G therefore receives the mid-year report in December and the annual report in July each year.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy, Resources & Growth Commitee.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital issues:

- the capital expenditure plans (section 2) and the associated prudential indicators (Annex C);
- the minimum revenue provision (MRP) policy (Section 3).

Treasury management issues:

- the current treasury position (section 1.5);
- treasury indicators which limit the treasury risk and activities of the council (Annex C);
- prospects for interest rates (Annex B);
- the borrowing strategy (section 2);
- policy on borrowing in advance of need (section 2.3);
- debt rescheduling (section 2.4);
- the investment strategy (section 4);
- creditworthiness policy (section 4.4); and
- the policy on the use of external service providers (section 5.3).

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

1.4 Treasury Management Policy Statement

The policies and objectives of the council's treasury management activities are as follows:

i) This council defines its treasury management activities as

'The management of the 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'.

ii) This 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 council, and any financial instruments entered into to manage these risks.

iii) This 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 management techniques, within the context of effective risk management.

1.5 Current Treasury Portfolio Position

A summary of the council's borrowing & investment portfolios as at 31 December 2018 and forecast at the end of the financial year is shown in **Table 1** below:

Table 1	Actual at 31 December 2018			Forecast to 31 March 2019		
	£'000	% of portfolio	Average Rate	£'000	% of portfolio	Average Rate
Investments						
UK Banks	58,500	41%	0.97%	44,000	32%	1.06%
Non-UK Banks	17,000	12%	1.01%	17,000	13%	1.08%
Building Societies	0	0	0	5,000	4%	1.05%
Local Authorities	34,500	24%	0.77%	21,000	15%	0.84%
Money Market Funds	23,532	16%	0.76%	40,000	29%	0.78%
Aberdeen Ultra Short Dated Bond Fund	10,051	7%	0.76%*	10,000	7%	0.80%
Total Investments	**143,583**	**100%**	**0.88%**	**137,000**	**100%**	**0.93%**
Borrowing						
PWLB loans	185,563	77%	4.15%	224,811	81%	3.87%
Market loans	45,000	19%	4.45%	45,000	16%	4.45%
Local Authorities	10,000	4%	0.85%	7,500	3%	0.88%
Total external Borrowing	**240,563**	**100%**	**4.07%**	**277,311**	**100%**	**3.88%**

**Annual gross yield to 31 December 2018*

2. BORROWING STRATEGY

The capital expenditure plans of the council are set out in the Budget book (Appendix 1 to this report). 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 the capital expenditure plans.

Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the council's need to borrow, represented by the council's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance its related capital expenditure: the council can utilise cash being held for other purposes

(such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

The council's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

The council operates a two-pool approach for borrowing following the HRA Self Financing regime introduced in March 2012.

2.1 General Fund Borrowing Position and Strategy

The General Fund has been maintaining an under-borrowed position in response to the current economic climate. This is a prudent strategy as investment returns are low and counterparty risk is still an issue that needs to be considered. £20m of new borrowing was undertaken in 2015/16 and 2016/17 to allow the council to take advantage of historically low interest rates, reducing the long term cost of the council's debt portfolio, but also to maintain the under-borrowing position at an appropriate level. The General Fund's average cost of borrowing as a result (excluding i360 related PWLB loans) has reduced from 4.82% to 4.46% which creates revenue savings of £86,000 per annum.

A restructuring opportunity arose in October 2018, with one of the council's market lenders (RBS) offering to allow the council to repay £30m Lender Option Borrower Option (LOBO) loans on more attractive terms, of which £13.9m was relating to the General Fund debt pool. There has been an increase in the council's cash balances during the last two years and the loan repayment was therefore initially funded through using cash within the investment portfolio. This has increased the under-borrowed position of external loans compared to the General Fund CFR. It is expected that a combination of new loans will be entered into to replace the RBS loans, which will provide total General Fund revenue savings of approximately £93,000 per annum, as well as improving the maturity profile of the council's debt.

General Fund Borrowing Strategy for 2019/20

The General Fund (GF) capital programme 2019/20 to 2021/22 forecasts a total of £266m capital investment, £169m of which will be met from existing or new resources. The increase in the GF borrowing need over this period is therefore £97m as shown in **Table 2** below.

2018/19 Projected	Table 2	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	Total
£m		£m	£m	£m	£m
73	GF Capital Expenditure	110	86	70	266
	Financed by:				
(58)	New & existing resources	(79)	(55)	(35)	(169)
15	**GF Borrowing Need**	**31**	**31**	**35**	**97**

Of the £97m borrowing need shown, £36m is from projects that are awaiting approval or detailed analysis. Therefore, the timing of borrowing is uncertain, and borrowing decisions for these projects will form part of the viability and due diligence process.

For the remaining borrowing need, the strategy will initially focus on meeting this borrowing need from internal borrowing i.e. avoiding external borrowing by utilising the council's own surplus cash flow. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the council's investment portfolio by reducing the portfolio size. However, borrowing rates have been volatile so far in 2018/19 and have increased

modestly over the summer. Therefore the internal borrowing position needs to be carefully and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure or refinance maturing debt.

There will remain a cost of carry (the difference between borrowing costs and investment rates) to any new long term borrowing that causes a temporary increase in cash balances which will, most likely, lead to a cost to revenue.

2.2 Housing Revenue Account (HRA) Borrowing Position and Strategy

The HRA operates a fully funded Capital Financing Requirement. Over 2016/17 and 2017/18 the HRA has applied £16.3m of borrowing to fund its capital programme. Of this, it borrowed £14m externally from the PWLB and the remaining £2.3m was borrowed from the General Fund in order to reduce the HRA's interest rate and to also minimise counterparty risk at a time when General Fund investment balances were increasing. Officers are monitoring interest rates in consultation with the treasury advisors to ascertain the optimum time to externalise this borrowing.

Of the £30m RBS loans repaid in October 2018, £16.1m of the loans were part of the HRA debt pool. It is expected that a combination of new loans will be entered into to replace the RBS loans, which will provide total HRA revenue savings of approximately £107,000 per annum, as well as improving the maturity profile of the council's debt.

HRA Borrowing Strategy for 2019/20

The HRA Capital Programme 2019/20 to 2021/22 forecasts a total £137m of capital investment over the next three years with £102m met from existing or new resources. The increase in the HRA's borrowing need over this period is therefore £35m as shown in **Table 3** below. It is expected that this borrowing need will be met from either borrowing externally or from the General Fund. This is dependent on the level of liquid resources the General Fund has available to lend to the HRA and additionally will depend on the view of interest rate prospects:

- If it is considered that there is a significant risk of reducing long term interest rates, long term borrowing should be postponed;
- If it is considered that there is a significant risk of sharply increasing long term interest rates, long term borrowing should be considered.

2018/19 Projected £m	Table 3	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	Total £m
35	HRA Capital Expenditure	46	44	47	137
	Financed by:				
(30)	New & existing resources	(34)	(33)	(35)	(102)
5	**HRA Borrowing Need**	**12**	**11**	**12**	**35**

Table 4 below shows the actual expected external debt compared to the capital financing requirement over the next 3 years for both the General Fund and the HRA. This demonstrates that the HRA CFR is expected to be fully funded to 2021/22, and the General Fund is expected to maintain an underborrowed position:

2018/19 Estimate £m	Table 4	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund				
140	GF Debt at 1 April	138	147	152
(2)	Expected change in Debt	9	5	18
138	**GF Debt at 31 March**	**147**	**152**	**170**
181	GF CFR* at 1 April	188	212	235
15	Borrowing need (Table 2)	31	31	35
(8)	MRP	(7)	(8)	(10)
188	**GF CFR* at 31 March**	**212**	**235**	**260**
50	**Under / (Over) borrowing**	**65**	**83**	**90**
26.6%	**% Underborrowed**	**30.7%**	**35.3%**	**34.6%**
Housing Revenue Account				
125	HRA Debt at 1 April**	129	141	151
4	Expected change in Debt	12	10	11
129	**HRA Debt at 31 March**	**141.0**	**151**	**162**
125	HRA CFR at 1 April	129	141.0	151
5	Borrowing need (Table 3)	12	11	12
(1)	MRP	(0)	(1)	(1)
129	**HRA CFR at 31 March**	**141.0**	**151**	**162**
-	**Under / (Over) borrowing**	**-**	**-**	**-**

* *GF CFR in Table 4 is the underlying need to borrow and excludes PFI and lease arrangements, which are included in the CFR figure in the Prudential Indicators in Annex C.*

** *Includes both external debt and sums borrowed from the General Fund (£2.225m as at 1 April 2018).*

2.3 Policy on Borrowing in Advance of Need

The council will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting.

2.4 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling but there has been a considerable widening of the difference between new borrowing and repayment rates, which has resulted in much fewer opportunities to realise any savings or benefits from rescheduling PWLB debt.

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;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

The strategy is to continue to seek opportunity to reduce the overall level of the council's debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and 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. All rescheduling will be agreed by the S151 Officer.

2.5 Interest Rate Risk & Continual Review

The council's total borrowing need of £132m is identified in **Tables 2 & 4.** This borrowing need, together with the debt at risk of maturity shown in **Table 5** is the extent to which the council is subject to interest rate risk over the next three years.

Table 5	2019/20	2020/21	2021/22
	£m	£m	£m
Maturing Debt	2	3	2
Debt Subject to early repayments options	15	15	20
Total debt at risk of maturity	**17**	**18**	**22**

Officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

Against this background and the risks within the economic forecast, caution needs to be excercised. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances as follows:

- if it was considered that there was a significant risk of a forthcoming sharp fall in long and short term rates (e.g. due to a marked increase in the risk of relapse into recession or increasing risk 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 considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, for example, arising from an acceleration 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 borrowing would be undertake and fixed rate funding drawn on whilst interest rates are still lower than they will be in the next few years.

3. MINIMUM REVENUE PROVISION POLICY STATEMENT

The council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP). Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The Council is recommended to approve the following MRP Statement for 2019/20:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the council will set side a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the council over the life of the asset. Asset Life Method (annuity method);

- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the council will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.

- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making a MRP;

Where the debt relates to the living wage joint venture:

- The council will set aside, in equal instalments, a sum which is equivalent to repaying the debt at the end of year 40 within the 60 year business plan. Set aside will commence, at the latest, in the year in which net surpluses are modelled for each individual tranche of borrowing.

For on-balance sheet PFI schemes and finance leases, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the “capital repayment element” of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

4. ANNUAL INVESTMENT STRATEGY

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy (Appendix 2).

The council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (the “Guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the “Code”);
- CIPFA Treasury Management Guidance Notes 2018.

The council's investment priorities will be the security of capital first, portfolio liquidity second and then yield (return).

4.1 Annual Investment Strategy for 2019/20

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). 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 flow, 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.

- If it is predicted that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments on short term or variable terms.
- Conversely, if it is predicted that Bank Rate is likely to fall within that time period, consideration will be given to locking in the higher rates currently obtainable, for longer periods.

Currently, Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by Quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

Year	2018/19	2019/20	2020/21	2021/22
Bank Rate	0.75%	1.25%	1.50%	2.00%

Link Asset Service's (LAS) view on the prospect for interest rates, including their forecast for short term investment rates is appended at Annex B.

The primary principle governing the council's investment criteria is the security of its investments, but return on investment is also important. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

Changes from 2018/19 Strategy

The changes in the investment strategy are highlighted in grey. There have been two changes from the strategy approved for 2018/19:

- The limit for pooled funds (including Money Market Funds) has been increased from £10m per fund to £15m per fund. At a time when cash balances are high (and expected to grow going into 2019/20 as a result of undertaking borrowing to replace the RBS debt), this provides further liquid capacity to enable officers to manage cash more efficiently.
- Within Annex A, three further UK counterparties have been added to the approved counterparty list. These counterparties meet the minimum credit criteria of the strategy and will provide further opportunity for diversification of the investment portfolio.

4.2 Investment Policy – Management of risk

Treasury management risks and how these risks are managed and mitigated are identified in the council's Treasury Management Practices and related procedures, details of which

are held within the council's Treasury Management Team. The main risks to the council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

The guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

i) Minimum acceptable credit criteria are applied in order to generate a list of high creditworthy counterparties. This also enables diversification and thus avoids a concentration of risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

ii) Other information: 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 opinion of the markets. To achieve this consideration the council will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on credit ratings.

iii) Other information sources used will include the financial press, share prices 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.

iv) Where there is a significant or sudden deterioration in one or more indicators (such as CDS prices), officers will undertake a review and, where necessary take action. This action may take the form of temporary suspension of a counterparty from the council's approved lending list, or a restriction of the maximum period and investment limits.

v) This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

   a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 6.

   b. **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The limits and permitted instruments for non-specified investments are listed within Table 7.

vi) Lending limits (amounts and maturity) for each counterparty will be set through applying the credit criteria matrix (within Table 7).

vii) This authority will set limits for the amount of its investments:

   a. which are invested for longer than 365 days, detailed in the Treasury Indicators in Annex C.

   b. which are invested in any one sector (paragraph 4.5)

   c. which are invested in any one counterparty within its relevant sector (paragragh 4.5)

viii) Investments in Non-UK Banks will only be placed with counterparties from countries with a specified minimum sovereign rating of AA (paragraph 4.3).

ix) Investments in UK banks will only be placed with counterparties with a minimum credit rating of BBB.

x) This authority has engaged external consultants, (see paragraph 5.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

xi) All investments will be denominated in sterling.

xii) As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years commencing from 1/4/18).

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.7). Regular monitoring of investment performance will be carried out during the year.

4.3 Sovereign Credit Ratings

For 2019/20 it is recommended to maintain the policy of lending to sovereign nations and their banks which hold at least a AA credit rating. The list of countries that qualify using this credit criteria (as at the date of this report) are shown below:

AAA Australia, Canada, Denmark, Germany, Netherlands, Qatar, Singapore, Sweden & Switzerland
AA+ Finland & United States,
AA France, United Arab Emirates & UK

4.4 Creditworthiness Policy

Each counterparty included on the council's approved lending list must meet the criteria set out below. Without the prior approval of the Council, no investment will be made in an instrument that falls outside the list below.

Table 6 below summarises the types of specified investment counterparties available to the council, and the maximum amount and maturity periods placed on each of these. A full list of the council's counterparties and the current limits for 2019/20 are appended at Annex A.

When assessing credit ratings to ascecrtain limits for each counterparty, the lowest short and long term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

Criteria for Specified Investments

Table 6	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	unlimited	6 months
UK Local Authorities	UK	N/A	UK Sovereign Rating	£10m per LA	12 months
UK Banks – part nationalised*	UK	UK government must own majority shareholding	N/A	£25m	12 months
UK Banks & credit rated Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£25m	12 months
			A / A-1	£15m	12 months
			BBB / A-2	£10m	6 months
Banks – Non-UK	Those with sovereign rating of at least AA*	Must meet minimum credit criteria	AA- / A-1+	£25m	12 months
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK/Ireland/ EU domiciled	Must meet minimum credit criteria	AAA	***£15m per fund***	Liquid
Ultra Short Dated Bond Funds	UK/Ireland/EU domiciled	Must meet minimum credit criteria	AA	***£15m per fund***	Liquid
Short Dated Bond Funds	UK/Ireland/EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the council's money and fund volatility will be key measures of suitability	N/A	***£15m per fund***	Liquid

*See Paragraph 4.3 for full list of countries that meet these criteria

Lending to the council's operational banking service provider

An additional operating limit of £2m and an additional investment limit of £5m will be provided for the council's provider of transactional banking services (currently Lloyds Bank plc). It is unavoidable that the £2m operational limit will be breached from time to time however, officers will endeavour to keep this to a minimum.

UK banks – ring fencing

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. Several banks are very close to the threshold already and so may come into scope in the future regardless.

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.

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. The list of approved counterparties in Annex A differentiates the limits for both ring fenced and non-ring fenced banks.

Part-Nationalised Banks

The council can lend £25m for up to 12 months to any bank in which the UK Government holds a majority shareholding regardless of the credit rating due to the implied government support of those entities. The Royal Bank of Scotland PLC & National Westminster Bank PLC are the two entities currently treated as part nationalised.

Non-Specified investments are any other types of investment that are not defined as specified. All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable:

Table 7	Instrument Type	Minimum credit criteria (L/term / S/term)	Maximum investments	Period
UK Local Authorities	N/A	N/A	£10m per LA	5 years
UK Banks & Non UK Banks	Fixed Deposits	AA+ / A-1+	£25m	3 years
		AA- / A-1+	£25m	2 years
	Negotiable Instruments	AA- / A-1+	£25m	5 years

A full list of counterparties that meet the council's criteria for both specified and non-specified investments are listed in Annex A.

4.5 Other Limits

In order to mitigate concentration risk, there are a number of other limits imposed within the investment strategy. **Table 8** sets out the maximum permitted investment for each sector at the time of investment:

Table 8	
Sector	**Max total of portfolio**
Banking sector	100%
Building Society Sector	75%
Local Authority Sector	100%
Money Market Funds (MMF)	100%
Short Dated & Ultra Short Dated Bond Funds	50%
Debt Management Account Deposit Facility (DMADF)	100%

In addition to these limits:

- No more than 25% of the portfolio can be invested for more than 1 year;
- With the exception of MMF & the DMADF, no one counterparty may have more than 25% of the relevant sector maximum at the time the investment is made.

4.6 Approved Methodology for adding and removing counterparties

A counterparty shall be removed from the council's list where a change in their credit rating results in a failure to meet the criteria set out above.

A new counterparty may only be added to the list with the written prior approval of the Executive Director of Finance & Resources and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of any counterparty where it is considered appropriate to do so by the Executive Director of Finance & Resources.

4.7 Investment Risk Benchmarking

The weighted average benchmark risk factor for 2019/20 is recommended to be 0.05%. This is unchanged from 2018/19. This is a measure of the percentage of the portfolio deemed to be at risk of loss by reference to the maturity date, value of investment, and credit rating of the individual investments within the portfolio compared to the historic default data for those credit ratings.

This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team can monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid-year or end of year reviews.

This matrix will only cover internally managed investments, excluding externally managed cash that has been subject to an individual selection process.

For any investment where there is a direct and legal offset against an existing financial liability, the investment will be assumed to have a benchmark risk of 0.00%.

5. OTHER TREASURY MATTERS

5.1 Banking Services

Lloyds Bank plc currently provides banking services for the council.

5.2 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. Training was last provided for members of the Audit Committee and PR&G Committee on 22 March 2018 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed and training arranged as required.

5.3 Policy on the use of External Service Providers

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

The council recognises that responsibility for treasury management decisions remains with the council at all times and will ensure that undue reliance is not placed upon our external service 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 subject to regular review.

5.4 Lending to Third Parties

The council has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy (Appendix 2 to this report).

5.5 Updates to Accounting Requirements

IFRS 9 – Financial Instruments

The accounting treatment for all financial instruments will be in the scope of IFRS 9 from 2018/19. This is not expected to have a significant impact on the council's investment portfolio, but the key considerations are as follows:

- A provision will be required for expected loss on the council's investment portfolio as at the 31 March 2019 using the "expected loss" model, taking into account historical losses for instruments that carry a similar credit quality. To provide an indication of the impact of this, a provision based on the investment portfolio as at 31 December 2018 would result in a provision being required of £0.023m.
- The valuation of investments previously classified as Available for Sale (AfS) will now be classified as Fair Value through Profit & Loss (FVPL). Under this change, any gains or losses on the valuation to the council's holding in the Aberdeen Ultra Short

Dated Bond fund at 31 March each year would have to be charged to the General Fund revenue account. Following the consultation undertaken by MHCLG on IFRS 9 the government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from this financial year, 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the government to keep the override under review and to maintain a form of transparency.

IFRS 16 – Leasing

CIPFA issued a consultation to local authorities regarding the accounting impact of operating leases being bought onto the balance sheet. The council's Prudential Indicators and Capital Financing Requirement will need to be amended to allow for leases which were previously off balance sheet being bought onto balance sheet from 1 April 2020. The authorised limit and operational boundary for 2020/21 onwards will be increased to reflect the effect of this change once assessed.

Appendix 3

ANNEX A - Approved List of Counterparties 2019/20

Counterparty	Specified /Non-specified	Short-term F=Fitch M=Moody's SP=Standard & Poor's			Long-term			Lending Limit	Fixed deposit duration limit (months)
		F	M	SP	F	M	SP		
(1) UK Banks									
Lloyds Banking Group:									
Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	Aa3	A+	£20m	12
Lloyds Bank PLC (RFB)	Specified	F1	P-1	A-1	A+	Aa3	A+	£20m	12
Lloyds Bank Corporate Markets PLC (NRFB)	Specified	F1	P-1	A-1	A	A1	A	£15m	12
Total Max. exposure to Lloyds Banking Group								£20m	12
Barclays Banking Group:									
Barclays Bank PLC (NRFB)	Specified	F1	P-1	A-1	A+	A2	A	£15m	12
Barclays Bank UK PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Total Max. exposure to Barclays Banking Group**								£15m	12
HSBC Group:									
HSBC Bank PLC (NRFB)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
HSBC UK Bank PLC (RFB)	Both	F1+		A-1+	AA-		AA-	£25m	24
Total Max. exposure to HSBC Group**								£25m	24
RBS/Natwest Group:									
Natwest Markets PLC (NRFB)	Specified	F1	P-2	A-2	A	Baa2	BBB+	£10m	6
National Westminster Bank PLC (RFB)	Specified	F1	P-1	A-2	A+	A1	A-	£25m	12
The Royal Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-2	A+	A1	A-	£25m	12
Total Max. exposure to RBS/Natwest Group**								£25m	12
Close Brothers Ltd	Specified	F1	P-1		A	Aa3		£15m	12
Clydesdale Bank PLC	Specified	F2	P-2	A-2	BBB+	Baa1	BBB+	£10m	6
Goldman Sachs International Bank	***Specified***	***F1***	***P-1***	***A-1***	***A***	***A1***	***A+***	***£15m***	***12***
Handelsbanken PLC	***Both***	***F1+***		***A-1+***	***AA***		***AA-***	***£25m***	***24***
Santander UK PLC	Specified	F1	P-1	A-1	A	Aa3	A	£15m	12
Standard Chartered Bank	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Sumitomo Mitsui Banking Corporation Europe Ltd	Specified	F1	P-1	A-1	A	A1	A	£15m	12
UBS Ltd	***Specified***	***F1+***	***P-1***	***A-1***	***AA-***	***Aa3***	***A+***	***£15m***	***12***
Virgin Money PLC	Specified	F2	P-2		BBB+	Baa1		£10m	6
(2) Building Societies+									
Coventry (3)	Specified	F1	P-1		A	A2		£15m	12
Leeds (5)	Specified	F1	P-2		A-	A3		£10m	6
Nationwide (1)	Specified	F1	P-1	A-1	A	Aa3	A	£15m	12

Principality (7)	Specified	F2	P-2		BBB+	Baa2		£10m	6
Skipton (4)	Specified	F1	P-2		A-	Baa1		£10m	6
Yorkshire (2)	Specified	F1	P-2		A-	A3		£10m	6
(3) Non-UK Banks									
Australia & NZ Banking Group (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Commonwealth Bank of Australia (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
National Australia Bank Ltd (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Westpac Banking Corporation (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Toronto Dominion (Canada)	Both	F1+	P-1	A-1+	AA-	Aa2	AA-	£25m	24
Nordea Bank Abp (Finland)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Landwirtschaftliche Renenbank (Germany)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£25m	36
NRW.BANK (Germany)	Both	F1+	P-1	A-1+	AAA	Aa1	AA-	£25m	24
Bank Nederlandse Gemeenten (The Netherlands)	Both	F1+	P-1	A-1+	AA+	Aaa	AAA	£25m	36
Nederlandse Waterschapsbank N. V. (The Netherlands)	Both		P-1	A-1+		Aaa	AAA	£25m	36
DBS Bank Ltd (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
Overseas Chinese Banking Corporation Limits (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
United Overseas Bank Limited (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
Svenska HandelsBanken AB (Sweden)	Both	F1+	P-1	A-1+	AA	Aa2	AA-	£25m	24
First Abu Dhabi Bank PJSC	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Bank of New York Mellon (USA)	Both	F1+	P-1	A-1+	AA	Aa1	AA-	£25m	24

* Ratings as advised by Link Asset Services 25 January 2019

\+ UK Building Societies ranking based on Total Asset size – Source: Building Societies Association Jan 2019

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit. Eg, exposure to Lloyds Banking Group can be up to £20m, but max exposure to Lloyds Bank Corporate Markets PLC will be £15m.

ANNEX B - ECONOMIC OVERVIEW

Summary of update provided by Link Asset Services 21 January 2019

Global Outlook:

- US growth anticipated to fall back in 2019;
- Weakening economic activity in China;
- Overall world growth expected to weaken;
- US and UK wage inflation may drive increased interest rates, however the ECB is not expected to raise rates until late 2019 at the earliest.

Key Risks - central bank monetary policy measures

- Looking back since the financial crash of 2008, central banks' monetary policy measures (e.g. quantative easing) appear to have been reasonably successful;
- A period of reversing those measures is now starting e.g. by raising central interest rates and reducing government holdings and debt;
- The key risk is central banks getting their timing right and not causing market shocks or destabilisation. Corrections inevitably cause sharp falls in either bond markets or equities depending on the direction of the correction;
- They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that is too slow and/or too weak. This is a key risk;
- For example, financial markets are concerned that the US Fed is being too aggressive with its policy for raising interest rates and may cause a recession in the US economy.

UK

- Growth in quarter 4 is expected to weaken significantly;
- With so much uncertainty around Brexit, the Monetary Policy Committee (MPC) have warned that the next interest rate move could be up or down, even if there were a disorderly Brexit (e.g. due to inflationary pressures);
- It is considered unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit;
- In view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019;
- Following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.
- If the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation will pick up.

Inflation

- Consumer Price Index (CPI) inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018;
- Inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate;
- Unemployment is at 4.0%, a 43 year low on the Independent Labour Organisation measure, and job vacancies are hitting an all-time high;

- Wage inflation continued at its high point of 3.3%, (3 month average regular pay, excluding bonuses);
- In real terms, earnings are currently growing by about 1.2%, the highest level since 2009;
- This 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.

Prospect for Interest Rates

The council has appointed Link Asset Services (LAS) as its treasury advisor and part of their service is to assist the council is to formulate a view on interest rates. The following table gives LAS's central view based on their view of global and UK economic outlook and the UK outlook for inflation, growth and monetary policy.

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%

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geopolitical issues, sovereign debt crises, emerging market developments or sharp changes in investor sentiment. 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 3-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- 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 future when authorities may not be able to avoid new borrowing to finance capital expenditure or refinancing of maturing debt;
- There will remain a 'cost of carry' risk to any new long-term borrowing that causes a temporary increase in cash balances because borrowing costs are currently higher than investment returns (on cash balances).

ANNEX C - PRUDENTIAL AND TREASURY INDICATORS 2019/20 to 2021/22

The council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. Local Authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2019/20 to 2021/22 are set out in **Table A** below:

Table A	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund (GF) Prudential Indicators			
GF Capital Expenditure £m (gross) General Fund capital expenditure plans	£110m	£86m	£70m
GF Capital Financing Requirement £m Measures the underlying need to borrow for capital purposes (including PFI & Leases)	£257m	£278m	£300m
GF Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	5.67%	4.98%	5.95%
Housing Revenue Account (HRA) Prudential Indicators			
HRA Capital Expenditure £m (gross) HRA capital expenditure plans	£47m	£44m	£47m
HRA Capital Financing Requirement £m Measures the underlying need to borrow for capital purposes	£141m	£151m	£162m
HRA Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	10.64%	10.68%	10.55%

** The ratio of financing costs to net revenue stream illustrates the percentage of the net revenue budget being used to finance the council's borrowing. This includes interest costs relating to the council's borrowing portfolio and MRP, net of the investment income from the council's investment portfolio.

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2019/20 to 2021/22 are set out in **Tables B & C** below.

The Treasury Management Code no longer recommends that an indicator for upper and lower limits for variable and fixed debt are prepared, so these indicators have been removed.

Table B	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Authorised Limit for External Debt £m* The council is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council.	£420m	£453m	£488m
Operational boundary for external debt £m* The council is required to set an operational boundary for external debt. This is the limit which external debt is not normally expected to exceed. This indicator may be breached temporarily for operational reasons.	£406m	£438m	£473m
Principal Sums invested for longer than 365 days	£30m	£30m	£30m

Table C		
Maturity Structure of fixed interest rate borrowing* The council needs to set upper and lower limits with respect to the maturity structure of its borrowing.		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

Note-

* *The Treasury Indicators above have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice.*

ANNEX D - SCHEME OF DELEGATION

1. Full Council

- Approval of Annual Investment Strategy, Treasury Management Strategy Statement, Capital Strategy, Treasury Management Policy Statement;
- Approval of the Minimum Revenue Provision Policy;
- Approval of the Prudential and Treasury indicators, including the Affordable borrowing limits;
- Approval of the annual revenue budget for financing costs.

The requirements are all contained within this appendix (TMSS incorporating the AIS) and Appendix 2 (Capital Strategy) of this report.

- Any changes to the Annual Investment Strategy during the year require approval by full Council.
- Full Council are able to delegate the implementation and monitoring of the treasury management function. This function is delegated to the Policy, Resources & Growth Committee.

2. Policy, Resources & Growth Committee

- Approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- Budget development, consideration and approval;
- Approval of the division of responsibilities;
- Receiving and reviewing regular monitoring reports and acting on recommendations.

PR&G receive the following reports in order to fulfil these requirements:

- A **Mid-Year Review Report** – an update on progress of the treasury and investment strategy against budget and the treasury & prudential indicators for the first six months of the year. Any amendments to the indicators or investment strategy require PR&G committee to recommend that full Council approve the changes.
- **End of Year Review report** – an update regarding the actual outturn of the treasury position provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- **Quarterly TBM reports** - includes the revenue impact of the financing cost budget.

PR&G Committee is the body held responsible for the scrutiny of the actual performance of the treasury avctivities against the strategy.

3. Role of the Section 151 Officer

The Section 151 (responsible) Officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;

- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

There are further responsibilities for the S151 Officer identified within the 2017 Code in respect of non-financial investments. They are identified and listed in the Capital Strategy where relevant.