Final Treasury Management Strategy Statement 2019/20

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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 in line 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 funding of the Council's capital plans. These capital plans provide a guide to borrowing need, 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. The Council anticipates taking on long-term borrowing for the first time during 2019/20.

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

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 cycle due to revisions of the 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 Investment Strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.The Capital Investment Strategy is being reported separately to Executive and full Council in March/April 2019.

1.2 Reporting requirements

1.2.1 Capital Investment Strategy

The revised CIPFA 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a Capital Investment Strategy, 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 risk is managed
- the implications for future financial sustainability

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

This Capital Investment 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 Investment 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 purchased, 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 Investment Strategy.

To demonstrate the proportionality between the Council's treasury operations and non-treasury operations, high-level comparators are shown throughout the report.

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.

(i) **Prudential and Treasury Indicators and Treasury Strategy** (this report) - this first, and most important, report is forward-looking and covers:
- capital spending plans, (including prudential indicators);
- the minimum revenue provision (MRP) policy, demonstrating how residual capital expenditure is charged to revenue over time;
- the Treasury Management Strategy, setting out how the investments and borrowings are to be organised), including treasury indicators; and
- a Treasury Investment Strategy, describing the parameters for how investments are to be managed.

(ii) **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.

(iii) **An Annual Treasury 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.

1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

1.2.4 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

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

(ii) **Treasury management**
- the current treasury position;
- treasury indicators which 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 Treasury Investment Strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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.

1.3 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. A workshop for members was conducted by our Treasury Advisors on 12 February 2019 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.4 Use of 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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

The Council 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.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial-type investments, such as investment properties.

For its commercial property investments the Council employs the services of specialist advisors on an asset-specific basis.

2. CAPITAL PRUDENTIAL INDICATORS 2019/20 TO 2023/24

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.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Members are asked to approve the following capital expenditure forecasts which were included in the Budget 2019/20 budget report to Executive on 24 January 2019:

Table 1: Capital Expenditure Programme

APPROVED CAPITAL EXPENDITURE PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Finance & Organisation	38,683.3	355.0	180.0	406.0	381.0	381.0
People Services	1,823.6	1,665.1	1,285.0	1,285.0	1,285.0	1,285.0
Place Services	5,207.6	18,806.7	27,944.6	26,210.5	16,407.5	1,307.5
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

The above Programme includes £38.2m investment in commercial property in 2018/19 under Finance & Organisation.

APPROVED CAPITAL EXPENDITURE PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial Property Investments	38,230.0	-	-	-	-	-

Commercial property investment plans beyond 2018/19 will be confirmed as the Capital Investment Strategy is developed during 2019/20.

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. The Council does not currently have any leasing arrangements of this type.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Capital Expenditure Programme Financing

CAPITAL EXPENDITURE FINANCING	2018/2019	2019/20	2020/21	2021/22	2022/23	2023/2024
	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Capital Reserves	21,824.8	1,016.8	152.9	6,123.1	0.0	0.0
Capital Receipts	290.3	362.0	19,680.5	11,569.5	15,575.5	475.5
Capital Grants & Contributions	3,599.4	3,047.9	2,776.2	2,653.8	2,498.0	2,498.0
Total Financing	**25,714.5**	**4,426.8**	**22,609.6**	**20,346.4**	**18,073.5**	**2,973.5**
Net Financing Need	20,000.0	16,400.0	6,800.0	7,555.1	0.0	0.0
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

The net financing need for investment in commercial property (included in Table 2) is shown below:

CAPITAL EXPENDITURE FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial Property Investments	20,000.0	-	-	-	-	-

Commercial property investment plans beyond 2018/19 will be confirmed as the Capital Investment Strategy is developed during 2019/20.

2.2 Borrowing need (the Capital Financing Requirement)

This 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 resources. It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

Table 3: Projected Capital Financing Requirement

CAPITAL FINANCING REQUIREMENT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
CFR – General Fund	20,000.0	36,269.0	42,825.3	50,082.5	49,716.9	49,336.8
Total CFR	**20,000.0**	**36,269.0**	**42,825.3**	**50,082.5**	**49,716.9**	**49,336.8**
Movement in CFR	**20,000.0**	**16,269.0**	**6,556.3**	**7,257.1**	**-365.5**	**-380.2**

Movement in CFR represented by:						
Net financing need for the year (above)	20,000.0	16,400.0	6,800.0	7,555.1	0.0	0.0
Less MRP/VRP and other financing movements	0.0	-131.0	-243.7	-298.0	-365.5	-380.2
Movement in CFR	**20,000.0**	**16,269.0**	**6,556.3**	**7,257.1**	**-365.5**	**-380.2**

The CFR for investment in commercial property (included in Table 3) is shown below:

CAPITAL FINANCING REQUIREMENT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Commercial Property Investments	**20,000**	**19,869**	**19,733**	**19,591**	**19,444**	**19,291**

Commercial property investment plans beyond 2018/19 will be confirmed as the Capital Investment Strategy is developed during 2019/20.

A key aspect of the updated regulatory and professional guidance is that Members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in Table 2 and the financing details at Table 3 above demonstrate the scope of this activity and, by approving this Strategy; the Council is confirming that it considers the scale proportionate to other investment activity.

2.3 Minimum revenue provision (MRP) 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).

MHCLG regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

- For all unsupported borrowing (including PFI and finance leases), the MRP policy will be the **Asset Life method** on an **Annuity Basis**.
- This method results in lower revenue charges in the early years of an asset's life, to reflect how benefits from the use of the asset are expected to accrue.
- This option will also be applied for any expenditure capitalised under a Capitalisation Direction.

Repayments included in any annual PFI charges or finance leases will be applied as MRP. This Council does not currently have any PFI schemes or finance leases.

MRP Overpayments. A change introduced by the revised MHCLG MRP Guidance is the provision that any MRP charges made over the statutory minimum may be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed, the MRP policy must disclose the cumulative overpayment made each year.

Up until 31 March 2019 the Council's cumulative overpayments were £Nil.

3. BORROWING

The capital expenditure plans at Section 2 provide a summary 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 fund service activity and the Capital Investment Strategy. This will involve both the organisation of cash flows and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury/prudential indicators, current and projected debt positions and the annual Treasury Investment Strategy.

3.1 External Debt

The Council's forward projections for borrowing are summarised below.

The Council is currently debt free and expects to start borrowing soon. Therefore, as the Council is starting from a nil CFR position, the gross debt will be the same as the Capital Financing Requirement.

The table below shows the prudential indicator for actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over- or under-borrowing.

Table 4: External Debt

EXTERNAL DEBT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Gross Debt at 1 April	**0**	**20,000**	**36,269**	**42,825**	**50,082**	**49,717**
Expected Change in Debt	20,000	16,269	6,556	7,257	-366	-380
Other Long-Term Liabilities	0	0	0	0	0	0
Expected Change in Other Long-Term Liabilities	0	0	0	0	0	0
Gross Debt at 31 March	**20,000**	**36,269**	**42,825**	**50,082**	**49,716**	**49,337**
The Capital Financing Requirement	20,000	36,269	42,825	50,082	49,716	49,337
Under/ (Over) Borrowing	**0**	**0**	**0**	**0**	**0**	**0**

Within the above figures the level of debt relating to commercial property investment is:

CAPITAL EXPENDITURE FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial Property Investments Gross Debt at 31 March (£m)	20,000	20,000	20,000	20,000	20,000	20,000
Percentage of total external debt (%)	100.0%	55.1%	46.8%	39.9%	40.2%	40.5%

Commercial property investment plans beyond 2018/19 will be confirmed as the Capital Investment Strategy is developed during 2019/20.

3.2 Treasury Indicators: limits to borrowing activity

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.

Table 5: Operational Boundary

OPERATIONAL BOUNDARY	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Debt	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**

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

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:

Table 6: Authorised Limit

AUTHORISED LIMIT	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Debt	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**

3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary sets out their latest forecasts.

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%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.80%	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.00%	1.10%	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	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit fog clears.

The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium-term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

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

economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10-year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. Since then, US 10-year bond yields have fallen back on fears that the Fed could be too aggressive in raising interest rates and was going to cause a recession. However, the Fed dropped any specific reference to expecting further rate increases at their January 30 meeting. Equity prices have been very volatile on alternating good and bad news during this period.

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, emerging market developments and 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 three-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.
- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have fallen significantly since then. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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 yet been funded with loan debt; instead cash supporting the Council's reserves, balances and cash flow has been used as a temporary funding 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 2019/20 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

- If it was felt that there was a significant risk of a much sharper RISE in long-term and short-term rates than that currently forecast, perhaps 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. Most likely, 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 the appropriate decision-making body at the next available opportunity.

3.5 Policy on 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 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 through the mid-year or annual reporting mechanism.

4. ANNUAL TREASURY INVESTMENT STRATEGY

4.1 Current portfolio position

The overall treasury management portfolio at 31 March 2018 and the position at 31 December 2018 are shown below.

Table 7: Treasury Portfolio

PORTFOLIO POSITION	2017/18		2018/19	
	Actual at 31 March 2018		Actual at 31 December 2018	
	£'000	%	£'000	%
Investments:				
Local Authorities	10,000	18%	0	0%
Clearing Banks	5,000	9%	0	0%
Other Financial Institutions[1]	8,000	14%	8,000	16%
Building Societies	33,000	59%	43,000	84%
Total Investments	**56,000**	**100%**	**51,000**	**100%**
Excludes balances held with Council's bankers for day-to-day banking purposes				
Long-Term Borrowing	The Council had no short-term or long-term borrowings at 31 March and 31 December 2018			

NOTE 1: Goldman Sachs

4.2 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, will be covered in the Capital Investment Strategy, (a separate report).

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 security first, portfolio liquidity second and then yield (return).

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

Table 8: Treasury Management Risk Assessment

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
Credit & Counterparty	This is the key risk for the Council. The security of 'capital' investment is critical.	R	The Council uses credit ratings and other market intelligence to access the credit quality of any potential counterparty. To be read in conjunction with Appendix 5.3. 1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings. The current minimum levels are: **Short-term** (less than one year in duration) Fitch F1 Standard & Poor's A-1 Moody's P-1 **Medium-term** (greater than 1 year up to and including 3 years) Fitch A+ Standard & Poor's A+ Moody's A1 **Longer-term** (greater than one year in duration up to and including 5 years) Fitch AA- Standard & Poor's AA- Moody's Aa3 In addition all non UK domiciled banks we might want to invest in will need to be supported by guarantees from their national central banks and their national government will need to have their own sovereign rating of 'AAA'. The constitution of Money Market Funds means that they spread their investment over a wide range of counterparties and financial instruments which itself reduces the impact of this risk being realised. In addition these funds will be subject to either having UK Government guarantees or will have the following minimum credit rating. **Longer-term** (greater than one year in duration up to and including 5 years) Fitch AAA Standard & Poor's AAA Moody's Aaa 2. The Council sets a maximum exposure level, expressed in "£" that can be invested with any one organisation. The current limits are a maximum of £10m for UK banks, and part nationalised UK banks. Non UK domiciled banks, Building societies, other local authorities, parish or community councils; and

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			housing associations a maximum of £5m. UK Government backed securities form an exception, where exposure can be unlimited. 3. To limit exposure in respect of Building Societies the Council will only invest with those societies with a minimum asset base of over £1 billion pounds. 4. 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 maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. 5. 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. 6. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.3 under the categories of 'specified' and 'non-specified' investments. • **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. • **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. 7. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see paragraph 4.3). 8. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix 5.3. 9. **Transaction limits** are set for each type

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			of investment in Table 9 and Appendix 5.3. 10. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see Table 10 para 4.4). 11. Investments will only be placed with counterparties from countries outside the UK with a specified minimum sovereign rating, (see Appendix 5.3 and list at 5.4). 12. This authority has engaged **external consultants**, (see page 5), 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. 13. All investments will be denominated in **sterling**. 14. 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, the Ministry of Housing, Communities and Local Government, [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 five years commencing from 1.4.18. 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. 15. 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 4.5). Regular monitoring of investment performance will be carried out during the year.
Liquidity	This is a managed risk for the Council. To provide services it needs to ensure that it has money available when required and that the provision of	A	1. The Council maintains both an operational (1 year) and strategic (up to 5 years) Cash Flow model. 2. Investment durations are then set to accord with when the money will be required according to the strategic cash flow model.

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
	the money should be delivered in the most cost effective way.		3. Each transaction takes into account the underlying macro-economic environment at the time the transaction is being considered.
Interest Rate	This is a risk to the Council of investing in transactions that have a 'variable' interest rate that might change over the duration of the transaction.	A	1. All 'cash' deposit transactions are undertaken on a 'Fixed-term' or 'Structured/stepped' deal basis which determines the interest rate and duration at the time the transaction is entered into.
Exchange Rate	This is not a risk for this Council, as all financial investment transactions are undertaken in '£' sterling.	G	Not applicable 1. All investments will be denominated in sterling.
Refinancing	This is an emerging risk for the Council.	A	1. Accurate records of loans will be maintained. Borrowing requirements will be planned well in advance of need to negotiate rates. The maturity profile of loans will be spread to reduce prospect of having to negotiate at a time that is unfavourable to the organisation.
Legal and Regulatory	This is a potential risk for the Council.	A	1. The Council's constitution and associated documentation (i.e. Financial Procedure Rules) clearly set out the governance framework within which Treasury Management activity is undertaken. 2. The Council's Treasury Management Practice notes (TMP's) clearly set out roles and responsibilities and authorisation limits. 3. In terms of the legal status of counterparties to deal with the Council, the Council relies upon advice from its Treasury Advisors and the fact that legal status is part of the elements that go to make up the 'credit rating' issued by the Rating Agencies.
Fraud, error & corruption and contingency management	This is a potential risk for the Council.	A	1. The Council's Treasury Management Practice notes (TMP's) clearly set out roles and responsibility and authorisation limits. 2. All treasury transactions require the involvement of at least two officers, split across two separate work teams in Finance. Each with the power to defer any transaction taking place. 3. Internal audit undertake periodic independent audit on both the effectiveness of the Council's treasury management control arrangements and whether all the transactions that have been undertaken are compliant with the Treasury Management Policy, Treasury

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			Management Strategy and the Treasury Management Practice.
Market risk	This is a potential risk for the Council.	A	1. As all 'cash' deposit transactions are undertaken on a 'Fixed-term' or 'Structured/stepped' basis this removes the potential of this risk occurring. 2. All 'Gilt' investments are bought and held to maturity, this again removes the potential for this risk. 3. Purchasing shares in a pooled investments (such as a money market fund) means that any downward movement in the relative share price could open the Council to a potential capital loss, but the likelihood of this occurring is low given that these funds, by their nature, invest in a wide range of financial instruments and financial institutions and earn their commission from increases in the share price.
Property investments	These are properties which are being held for capital appreciation or for a longer term rental income stream. These are a risk to the Council due to the potential for property prices to fall or for rental voids.	A	1. Each acquisition will require appropriate approval. 2. Property holding will be re-valued regularly and reported annually with gross and net rental streams 3. All investments will be required to demonstrate a return in excess of the opportunity cost of capital which is calculated with reference to the Council's interest payable on equivalent borrowing and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing. 4. The progress made in respect of achieving an appropriately balanced and diversified portfolio over the longer term will be monitored. 5. Note: This is detailed in the separate Capital Investment Strategy report
Loans to third parties, including soft loans	These are investments at market rates of interest. These types of investments may exhibit credit risk.	A	1. Each third party loan requires appropriate approval and each application is supported by the rationale behind the loan and the likelihood of default.
Changes in accounting policy	This is a potential risk for the Council if the change in policy results in changes to how forecast costs/receipts are subsequently reported	A	1. As a result of the change in accounting standards for 2018/19 under IFRS 9, this Council 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.

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
	in the Council's accounts.		2. In November 2018, the Ministry of Housing, Communities and Local Government, [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 five years commencing from 1.4.18. 3. 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.

The above risk management approach has been reviewed and updated to reflect Link Asset Services' latest guidance for 2019/20.

4.2 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating "Watches" (notification of a likely change), rating "Outlooks" (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to

counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The Council's criteria for achieving a pool of high-quality investment counterparties, (for both specified and non-specified investments) are set out below and at Table 8. The Council uses credit ratings and other market intelligence to access the credit quality of any potential counterparty.

The Council sets limits as to the minimum level of credit rating that it will accept for any individual counterparty. The current minimum levels are:

Table 9: Counter-Party Criteria

Counterparty List			Credit Rating & Duration			
			Fitch	**Standard & Poor**	**Moody's**	
UK Banks	Covers UK Retail & Clearing Banks	Short-Term	F1	A-1	P-1	less than or equal to 1 yr.
		Medium-Term	A+	A+	A1	greater 1 yr. & incl. 3 yrs.
		Long-Term	AA-	AA-	Aa3	greater 1 yr. & incl. 5 yrs.
Non-UK domiciled Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign Long Term rating of 'AAA'	Short-Term	F1	A-1	P-1	less than or equal to 1 yr.
		Medium-Term	A+	A+	A1	greater 1 yr. & incl. 3 yrs.
Part Nationalised UK Banks	These banks can be included provided they continue to be part nationalised or meet the ratings in UK Banks above.	Short-Term	F1	A-1	P-1	less than or equal to 1 yr.
		Medium-Term	A+	A+	A1	greater 1 yr. & incl. 3 yrs.
		Long-Term	AA-	AA-	Aa3	greater 1 yr. & incl. 5 yrs.
The Council's own banker for day to day banking transactional purposes.	If the bank falls below the following criteria, in this case balances will be minimised in both monetary size and time invested.	Short-Term	F1	A-1	P-1	less than or equal to 1 yr.
		Medium - Term	A+	A+	A1	greater 1 yr. & incl. 3 yrs.
		Long-Term	AA-	AA-	Aa3	greater 1 yr. & incl. 5 yrs.
Building societies	The Council will use all societies which meet the following criteria	The Council may use building societies but only if they have a minimum asset size of £1 Billion.				Up to 3 years

Table 9: Counter-Party Criteria cont.…

Counterparty List			Credit Rating & Duration			
			Fitch	Standard & Poor	Moody's	
Money Market Funds (MMFs)	Constant Net Asset Value (CNAV)	Short-Term	F1+	A-1+	P-1	less than or equal to 1 yr.
		Long-Term	AAA	AAA	Aaa	greater 1 yr. & incl. 5 yrs.
Money Market Funds (MMFs)	Low-Volatility Net Asset Value (LVNAV)	Short-Term	F1+	A-1+	P-1	less than or equal to 1 yr.
		Long-Term	AAA	AAA	Aaa	greater 1 yr. & incl. 5 yrs.
Money Market Funds (MMFs)	Variable Net Asset value (VNAV)	Short-Term	F1+	A-1+	P-1	less than or equal to 1 yr.
		Long-Term	AAA	AAA	Aaa	greater 1 yr. & incl. 5 yrs.
UK Government (including gilts, Treasury Bills and the DMADF)	No credit rating UK Government guarantees		N/A	N/A	N/A	up to 3 years
Local authorities, parish councils etc.	No credit rating UK government guarantees		N/A	N/A	N/A	up to 3 years
Supranational institutions (e.g. European Investment Bank or World Bank)	The Council will use supranational institutions which meet the following criteria	Short-Term	F1	A-1	P-1	less than or equal to 1 yr.

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

Time and monetary limits applying to investments. The Council sets a **maximum exposure level, expressed in "£" that can be invested with any one** organisation. The current limit is a maximum of £10m for UK banks, and part nationalised UK banks. Non UK domiciled banks. Building societies, other local authorities, and parish or community councils; and housing associations a maximum of £5m. UK Government backed securities form an exception, where exposure can be unlimited.

UK banks – ring-fencing. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-

fencing". 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. Those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

(i) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio.

(ii) **Country limit**. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4 This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

(iii) **Other limits**. In addition:

- no more than 10% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;

4.4 Treasury Investment Strategy

In-house funds. 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 thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations. On the assumption that the UK and EU agree a Brexit deal in spring 2019 or soon after, then 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:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 2.00%

The estimated budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are therefore as follows:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%
- 2021/22 1.75%
- 2022/23 2.0%
- 2023/24 2.25%
- Later years 2.5%

The overall balance of risks to economic growth in the UK is probably neutral.

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

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

The Council is asked to approve the following treasury indicator and limit:

Table 10: Treasury Limits

Upper limit for principal sums invested for longer than 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested for longer than 365 days	£20m	£20m	£20m
Current investments as at 31.12.18 in excess of 1 year maturing in each year	£12m	-	£13m

For its cash flow-generated balances, the Council will seek to utilise business reserve, instant access and notice accounts, pooled investments (such as money

market funds) and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

This Council will use the 7-day LIBID rate as an investment benchmark to assess the performance of its investment portfolio.

4.6 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.

4.7 External fund managers

Where the Council employs external fund manager(s) they will comply with the Annual Treasury Investment Strategy. The agreement(s) between the Council and the fund manager(s) will additionally stipulate guidelines and duration and other limits in order to contain and control risk. The Council does not currently employ external fund managers.

5. APPENDICES

5.1 Capital, prudential and treasury indicators 2019/20 to 2023/24 and MRP statement

5.2 Economic background – link asset services

5.3 Treasury Management Practice (TMP1) – Credit and counterparty risk management

5.4 Approved countries for investments

5.5 Treasury management scheme of delegation

5.6 Treasury management role of the Section 151 Officer

5.1 Capital, prudential and treasury indicators 2019/20 to 2023/24 and MRP statement

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.

5.1.1. Capital expenditure

Details of the Capital Programme 2019/20 to 2023/24 by service are shown below.

APPROVED CAPITAL PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Strategic Property	38,363.0	50.0	50.0	76.0	76.0	76.0
IT Services	139.3	275.0	100.0	300.0	275.0	275.0
Organisational Development	181.0	30.0	30.0	30.0	30.0	30.0
Housing	1,549.1	1,495.1	1,115.0	1,115.0	1,115.0	1,115.0
Wellbeing & Intervention	245.0	145.0	145.0	145.0	145.0	145.0
Community Partnerships	29.5	25.0	25.0	25.0	25.0	25.0
Neighbourhood Operations	1,323.4	1,742.0	3,661.0	2,927.5	1,307.5	1,307.5
Place Delivery	3,884.2	17,064.7	24,283.6	23,283.0	15,100.0	0.0
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

CAPITAL EXPENDITURE FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Capital Reserves	21,824.8	1,016.8	152.9	6,123.1	0.0	0.0
Capital Receipts	290.3	362.0	19,680.5	11,569.5	15,575.5	475.5
Capital Grants & Contributions	3,599.4	3,047.9	2,776.2	2,653.8	2,498.0	2,498.0
Total Financing	**25,714.5**	**4,426.8**	**22,609.6**	**20,346.4**	**18,073.5**	**2,973.5**
Net Financing Need	20,000.0	16,400.0	6,800.0	7,555.0	0.0	0.0
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

The above Programme includes £38.23m investment in commercial property.

APPROVED CAPITAL EXPENDITURE	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial Property Investments	38,230.0	-	-	-	-	-

Commercial property investment plans beyond 2018/19 will be confirmed as the Capital Investment Strategy is developed during 2019/20.

5.1.2. Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential

indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The financing costs are the interest payable on borrowing, finance lease or other long term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of the Council's borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The net revenue stream is defined as the amount required to be funded from Government Grants and local taxpayers, in effect the budget requirement. Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

FINANCING COSTS AS % OF NET REVENUE STREAM	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Projected	Estimate	Estimate	Estimate	Estimate	Estimate
Net Revenue stream	15,494.5	16,044.6	16,755.1	17,472.2	18,203.0	18,947.7
Financing costs	-569.2	443.4	599.8	762.3	686.5	718.4
%	-3.67%	2.76%	3.58%	4.36%	3.77%	3.79%

The estimates of financing costs include current commitments and the proposals in the 2019/20 Budget Report.

5.1.3. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 Economic background – Link Asset Services

Global Outlook.

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

Key Risks

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. 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 was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks. At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to

cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK.

The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium-term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, 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, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation.

The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, 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.

As for the labour market figures in October, unemployment at 4.1% was

marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), 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. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, 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 picking up.

USA.

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US

and China.

Eurozone.

Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China.

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan

Has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries.

Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

Interest Rate Forecasts

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of

stronger growth and in the corresponding response by the Bank in raising rates.

In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably neutral.

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

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone** sovereign debt crisis, possibly in Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a 'fudge' was subsequently agreed, but only by delaying the planned increases in expenditure to a later year. This can has therefore

only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority Eurozone governments**. Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections. Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in **interest rates in the US** could spark a sudden flight of investment funds from more risky assets e.g. shares, into bonds yielding a much-improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order

to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **The Fed** causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- 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**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

March 2017	• UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
25 November 2018	• EU27 leaders endorsed the withdrawal agreement
December 2018	• Vote in the UK Parliament on the agreement was postponed
21 December 2018 – 8 January 2019	• UK parliamentary recess
15 January 2019	• Brexit deal defeated in the Commons vote by a large margin
By 29 March 2019	• Second vote (?) in UK parliament
By 29 March 2019	• If the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority

Brexit timetable and process

By 29 March 2019	• If the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
29 March 2019	• Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
29 March 2019	• If an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.
29 March 2019	• UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
29 March 2019	• The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
29 March 2019	• The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
29 March 2019	• If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
29 March 2019	• The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
29 March 2019	• On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

5.3 Treasury management practice (TMP1) – credit and counterparty risk management

MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 11 April 2019 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced treasury management practices (TMPs). This part, TMP 1(1), covering **Investment Counterparty Policy** requires approval each year.

Annual Treasury Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual Treasury Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council, and housing association
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Aaa for Moody's and AAA for Fitch rating agencies
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of A-1 as rated by Standard and Poor's,P-1for Moody's and F1 for Fitch rating agencies. A building society not requiring a credit rating with a minimum asset base of over £1 billion pounds is also considered as high credit quality.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

Non Specified Investment Category						
Counterparty List		Credit Rating & Duration				Limit (£ or %)
			Fitch	Standard & Poor's	Moody's	
UK Banks (Covers UK Retail & Clearing Banks)	Any UK Bank, regulated by the Prudential Regulation Authority that has a minimum medium to long-term credit rating from all three of the Credit Rating Agencies; for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Medium-Term	A+	A+	A1	£5m up to 3 years for an individual counterparty (or group)
		Long-Term	AA-	AA-	Aa3	£10m up to 5 years for an individual counterparty (or group)
Non-UK domiciled Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign rating of 'AAA'	Medium-Term	A+	A+	A1	£5m up to 3 years for an individual counterparty (or group)
Part Nationalised UK Bank	These banks can be included provided they continue to be part nationalised or meet the ratings in UK Banks above.	Medium-Term	A+	A+	A1	£5m up to 3 years for an individual counterparty (or group)
		Long-Term	AA-	AA-	Aa3	£10m up to 5 years for an individual counterparty (or group)
UK Building societies, regulated by the Prudential Regulation Authority.	The Council will use all societies which meet the following criteria	The Council may use building societies but only if they have a minimum asset size of £1 Billion				£5m up to 3 years for an individual counterparty (or group)
UK Government (including gilts, Treasury Bills and the DMADF)	No credit rating UK Government guarantees		N/A	N/A	N/A	Unlimited
Local authorities, parish councils etc.	No credit rating UK government guarantees		N/A	N/A	N/A	£5m up to 3 years for an individual counterparty up to maximum of 20% of the portfolio

Monitoring investment counterparties - the credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – the Council does not currently use external fund managers. If the Council decides to use external fund managers in future it is anticipated that they will use both specified and non-specified investment categories and will be contractually committed to keep to the Council's investment strategy. The performance of each manager will be reviewed at least half-yearly by the Chief Finance Officer and the managers will be contractually required to comply with the annual investment strategy and limits for non-specified investments will be set with consideration to the fund managers' parameters. The Council will confirm the acceptance of the strategy with all managers used.

5.4 Approved countries for investments

Link Asset Services: This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from Fitch, Moody's and S&P) and also, (except 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.

Based on lowest available rating at 12.2.19

AAA

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

AA+

- Finland
- U.S.A.

AA

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

AA-

- Belgium
- Qatar

5.5 Treasury management scheme of delegation

(i) Executive

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(ii) Overview & Scrutiny Committee

- reviewing treasury management policy and procedures and making recommendations to the responsible body.

(iii) Chief Finance Officer

- approving the selection of external service providers and agreeing terms of appointment.

5.6 Treasury management role of the Section 151 Officer

The Chief Finance Officer, as Section 151 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;
- Appointing external service providers.
- Preparation of a Capital Investment Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- Ensuring that the Capital Investment Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the council
- Ensure that the council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- Ensuring the proportionality of all investments so that the council does not undertake a level of investing which exposes the council to an excessive level of risk compared to its financial resources
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- Provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- Ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- Ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements

for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.