Havering
LONDON BOROUGH

AUDIT COMMITTEE	**28 FEBRUARY 2018**
Subject Heading:	**Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2018/19**
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Policy context:	The code of practice on treasury management 2011 recommends that the Treasury Management Strategy and Minimum Revenue Provision Statement are reported to a scrutiny committee for effective scrutiny.
Financial summary:	The Treasury Management Strategy forms part of the Council's overall budget strategy and financial management framework.
Is this a Key Decision?	No
When should this matter be reviewed?	Bi-Annually
Reviewing OSC:	Audit Committee

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, and published a revised Code on 29th December 2017. The new code was published too late to influence the 2018/19 budget cycle and therefore this report is presented in accordance with the 2011 Code.

In addition, the Department for Communities and Local Government (DCLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the DCLG Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management Indicators
- Prudential Indicators
- A Minimum Revenue Provision Policy (the means by which capital expenditure which is financed from borrowing is paid for by council tax payers)

This Cabinet meeting (7/02/18) approved:

- the Treasury Management Strategy Statement (TMSS) 2018/19,
- the Treasury Management and Prudential Indicators set out in Appendix 7 of this report.
- the Treasury Management and Prudential Indicators set out in Appendix 7 of this report.
- the Annual Minimum Revenue Provision (MRP) Statement for 2018/19 set out in Appendix 8 of this report; and
- recommended the annual TMSS and MRP statements 2018/19 to Council for approval.

RECOMMENDATIONS

- To note the report and make any comment on its content..

REPORT DETAIL

1. INTRODUCTION

1.1 The Authority's treasury policy is set out in **Appendix 1** of this report.

1.2 The Authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.3 The second main objective of the Treasury Management service is to ensure property funding of the Authority's capital expenditure plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. In addition the Authority's commercial agenda established to mitigate the impact on services from government grant reductions is also driving its capital plans. The funding needs of these commercial activities differ from those of the general capital programme and this is addressed in this strategy. The Government is seeking to change how these commercial activities are reported in future through its current consultation papers and this will feature in future TMSS reports.

2. SERVICE DELIVERY AND PERFORMANCE ISSUES

2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on economic growth. Transitional arrangements may prevent a "cliff-edge", but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain insipid throughout 2018/19.

2.2 **Credit outlook:** The health of the European banking sector although improving remains an area of concern.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities. This is expected to take place around March/April 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.3 **Interest rate forecast:** The Authority's treasury adviser (Arlingclose) central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The MPC re-emphasised that any prospective increase in Bank Rate would be expected to be at a gradual pace and limited in extent.

A more detailed economic and interest rate forecast is attached in **Appendix 2**.

3. BALANCE SHEET SUMMARY AND FORECAST

On 31st December 2017, the Authority held £229.5m of borrowing and £230.3m of investments. This is set out in further detail in **Appendix 3**. Forecast changes at summary level are shown in the balance sheet analysis in table 1 below which is based upon the proposed Capital Programme for 2018/19 which will require the Council to borrow an additional £10m in 2019/20 and a further £30m in 2020/21.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
General Fund CFR	76	97	118	165	185	194	193
HRA CFR	175	175	175	175	175	175	175
Total CFR	**251**	**272**	**293**	**340**	**360**	**369**	**368**
Less: External borrowing	-215	-210	-210	-230	-260	-270	-270
Internal borrowing	**36**	**62**	**83**	**110**	**100**	**99**	**98**
Less: Usable reserves	-209	-176	-137	-121	-114	-114	-115
Less: Working capital	-28	-28	-28	-28	-28	-28	-28
Investments	**-201**	**-142**	**-82**	**-39**	**-42**	**-43**	**-45**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to be compliant with this requirement. The split between internal borrowing and external borrowing may change depending on the outlook on future interest rates.

4. BORROWING STRATEGY

4.1 Objectives: The Authority's borrowing strategy will be informed by:

- Interest rate forecasts and the shape of the interest rate curve.
- Spread of current debt maturities to avoid high concentrations in any year
- Shape of the Authority's future capital finance requirement (CFR) curve; and
- Balance of callable long term debt and non-callable long term debt in the portfolio.

4.2 Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. All capital investment schemes assume an external borrowing rate in their cost of capital.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The treasury advisor will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this results in a short term carrying cost.
Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

4.3 Medium term capital programme

The Authority’s General Fund CFR is increasing due to its decision in February 2016 to approve £100m of capital expenditure for regeneration and development financed by prudential borrowing.

Further to the additional £100m, approval is being sought to fund capital expenditure from prudential borrowing for the joint venture schemes’ Bridge Close, Rainham and Beam Park partnerships as part of the overall capital programme which is set out in the Medium Term Financial Strategy Report elsewhere on this Cabinet agenda.

The Authority’s HRA Business plan which is also set out elsewhere on this Cabinet agenda for approval will result in an accelerated use of the HRA ring fenced reserves and consequently a gradual decrease in the Authority’s total cash balances.

Based on the proposed 2018/19 capital programme, internal borrowing will be utilised in the first instance. However, it is forecasted that the Council’s General Fund will need to undertake additional external borrowing of £20m in 2019/20 and a further borrowing of £30m in 2020/21 in order to maintain working balances of approximately £40m.

As detailed in the HRA business plan, the current headroom available to the HRA is £34.334m. It should be noted that the move to an accelerated payment commitment to the Bridge Close JV LLP to acquire 375 affordable units will require the HRA to borrow an additional £13.333m in 2024/25 and a further borrowing of £4.409m by the close of 2025/26.

Appendix 4 shows the current profile of the Authority's borrowing.

Other factors such as interest rates and cost of carry will also be considered when determining the optimum period in which to undertake external borrowing and this may be earlier than is currently profiled.

The Council, if required, will look to borrow for the agreed capital programme at the best rates available within the stated borrowing limits in Table 1 and subject to budget availability.

4.4 Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except LB of Havering Pension Fund)
- capital market bond investors: and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

The Authority's policy on Borrowing in advance of need is stated in **Appendix 8.**

4.5 Lender's Option Borrowers' Option (LOBO): The Authority holds a £7m LOBO loan, where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The LOBO loan has options during 2018/19, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will opt to repay the LOBO loan at no cost if the opportunity arises.

4.6 Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as set out in the section on treasury management indicators discussed later in this report.

4.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates although this is not expected to be a viable option in 2018/19. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. INVESTMENT STRATEGY

1.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £201.3m and £251.7m. The requirements of the proposed capital programme and likeliness of funding the programme through internal borrowing will possibly lead to a decline in cash balances over the coming period.

5.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy:** Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates. The Authority will consider placing longer term deals while investment rates are at historically low levels where attractive rates with high quality counterparties are available.

5.3.1 Given the volatile nature of financial markets and the need to respond quickly it may be necessary to revise the strategy throughout the year. It is, therefore, proposed to delegate changes to the Chief Financial Officer (S151 Officer) in consultation with the Cabinet Member for Financial Management, ICT (client) & Transformation notifying the Authority in the Mid-year or the Annual Treasury Management Report.

5.4 **Approved counterparties and Limits:**

5.4.1 **Credit Ratings:** The Authority has chosen to apply the creditworthiness service provided by the treasury advisor, which employs a sophisticated modelling approach utilising credit ratings from all the three main credit rating agencies – Fitch, Moody's and Standard and Poor's. The credit ratings of counter parties are supplemented with the following:

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

The use of these criteria for deposits with banks and building societies will meet the definition of "high" credit ratings as required by the CLG guidance.

5.4.2 The Authority's current criteria and durations for investments are set out in **Appendix 5.** The Chief Financial Officer (S151 Officer) will, on advice, make operational changes to the criteria in response to prevailing market conditions.

5.4.3 Investment instruments identified for use in the financial year are listed in **Appendix 6** under the 'Specified' and 'Non Specified' investment categories.

5.4.4 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury adviser, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.4.5 **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

All eligible counterparties and new types of investments will be discussed prior to their use by the Lead Member, Chief Financial Officer and other senior finance officers where the appropriateness and security of the investments will be assessed. Any counterparties or investments that fail to meet approval of the group will not be used despite meeting the investment strategy criteria.

5.4.6 **Liquidity management**: The Authority maintains a detailed cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6. TREASURY MANAGEMENT INDICATORS

The CIPFA Prudential Code and TM Code requires authorities to set treasury indicators and these are set out in draft in **Appendix 7**. No breaches in the indicators are likely in 2018/19.

7. MINIMUM REVENUE PROVISION (the MRP)

The proposed MRP policy statement 2018/19 is set out in **Appendix 9** of this report. The policy has been amended to give the flexibility of using the annuity method for charging purposes and any revenue cost savings can be used to fund the holding costs associated with the commercial schemes.

8. LOANS TO THIRD PARTIES

The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Council's internal cash balances as external borrowing is not permitted in such circumstances.

9. OTHER ITEMS

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

9.1 **Policy on the use of financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. Whilst this provides the flexibility to use these instruments there are no immediate plans to deploy them in 2018/19.

9.2 **Policy on apportioning interest to the HRA:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed are assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

9.3 **Investment training:** The needs of the Authority's treasury management staff for training in investment management are assessed on a regular basis as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
Staff regularly attend training courses, seminars and conferences provided by the treasury management adviser and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

9.4 **Investment advisers:** The Authority's current treasury management adviser is Arlingclose Limited and receives specific advice on investment, debt and capital finance issues. The Authority recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon our advisers.

9.5 **Investment of money borrowed in advance of need**: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

9.6 **Markets in Financial Instruments Directive (MiFID II)**

The Authority has opted up to the 'Elective Professional Status' where necessary in regards to MiFID II. The opt-up is an annual process or as and when dealing with a new financial institution.

9.7 **Policy Implications & Corporate Priorities**

The revised CIPFA Prudential Code and CIPFA Treasury Management Code released on 29/12/17 and were therefore published too late to influence the 2018/19 budget cycle and therefore this strategy is prepared in accordance with the 2011 code.

Furthermore, the Authority is also awaiting the publication on the outcome of the consultation carried out by DCLG on MRP and Investment Guidance.

Officers will arrange member training on the changes and help the Council respond to the new requirements.

The Codes appear to accept the drive for financial returns and the use of non-treasury related investments, but reaffirms the need for risk management and proportionality of commercial activities in relation to the Council's core activities.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Council ought to approve a Treasury Management Strategy Statement, the MRP Strategy and the Prudential Indicators.

Other options considered:

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Financial Management, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2018/19, the budget for investment income has been set at £1.105m, based on an average interest rate of 0.60%.

The budget for long term debt interest payable in 2018/19 has been increased from £7.6m to £8.5m. This is based on the existing average long term debt portfolio of £210m at an average interest rate of 3.6% and has been adjusted for anticipated borrowing as described in paragraph 4.3.
Of the existing £210m of long term debt, £170m is in relation to HRA, with a budget for debt interest payable of £5.8m.
The General Fund Budget for debt interest on external debt has been increased by £0.900m from £1.8m to £2.7m to allow for external borrowing to be undertaken should it be considered necessary in 2018/19 to fund the cost of borrowing for the increased capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Council must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA when considering its duty under section 3.

The Council has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report."

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities implications and risks:

There are no equalities implications within this report

BACKGROUND PAPERS

- London Borough of Havering – Treasury management strategy 2017/18 and MRP Policy statement

Appendix 1: Treasury Management Policy Statement

1. Treasury management within this Authority is undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services ("the CIPFA Code").

2. The Authority has been compliant with the requirements of the CIPFA Code and has formally adopted the key recommendations as described within Section 4 of the CIPFA Code.

3. In accordance with the CIPFA Code, the Authority defines treasury management activities as: "The management of the council's 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."

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

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

6. The Authority will create and maintain, as the cornerstone for effective treasury management:

    a. Treasury policy statement, stating the objectives of its Treasury Management activities suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    b. Treasury management Prudential Indicators as determined by the requirements of the CIPFA Prudential Code; and

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

7. The Authority will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, an annual report after its close and an interim review report.

8. The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet Member for Financial Management and for the execution and administration of treasury management decisions to the Chief Financial Officer (S151 Officer), who will act in accordance with the Authority’s policy statement and the CIPFA Code.

Appendix 2 – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk. The PWLB certainty rate is 80bps above the gilt yield rate across all time periods.

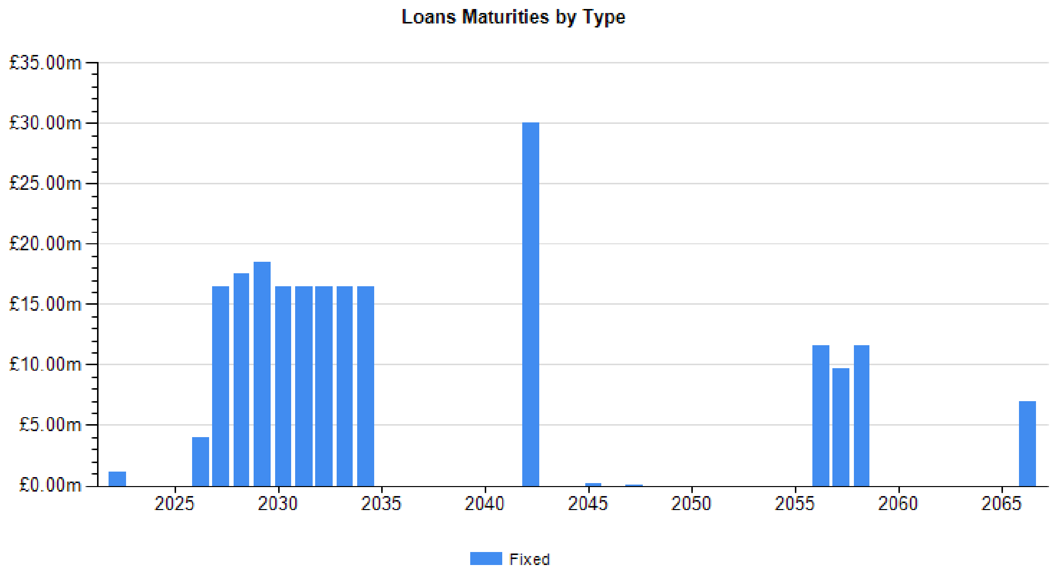
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.17
3-month LIBID rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.23
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.22
1-yr LIBID rate														
Upside risk	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.28
Arlingclose Central Case	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.78
Downside risk	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	1.15	0.92
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.35
10-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.60	1.38
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.34
20-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	2.10	1.95
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.41
50-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	2.00	1.84
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.41

Appendix 3 – Existing Investment & Debt Portfolio Position

	31/12/17 **Actual Portfolio £m**	31/12/17 **Average Rate %**
External borrowing:		
Public Works Loan Board	203.234	
Local authorities	19.000	
LOBO loans from banks	7.000	
Other loans	0.249	
Total external borrowing	**229.483**	**3.32%**
Treasury investments:		
Banks & building societies (unsecured)	95.208	
Covered bonds & repo (secured)	9.021	
Government (incl. local authorities)	117.600	
Corporate bonds and loans	0	
Money Market Funds	8.487	
Other pooled funds	0	
Total treasury investments	**230.316**	**0.65%**
Net Investments	**0.832**	

Appendix 4 – The Authority's Debt Portfolio

The graph and table below shows the debt and maturity profile of the Authority's **fixed** term borrowing.



Maturity Period	**Total £**
Liquid	
< 1 Year	
1 - 2 Years	
2 - 5 years	1,109,799
5 - 10 years	21,532,612
10 - 20 years	117,631,812
20 - 30 years	30,249,313
30 - 40 years	32,274,481
40 - 50 years	7,685,374
> 50 Years	
Total	£210,483,391

Appendix 5 – The Authority's Minimum Credit Rating Criteria

Credit Rating: Investment decisions are made by reference to the lowest published long term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.
   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.
   The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The Authority's credit rating criteria for UK Building Societies in 2018/19 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.

4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

7. **Residential Mortgage Based Schemes [New]** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.

8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

9. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

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

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	£35m 15 years	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	£35m 10 years	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	£15m 5 years	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	£15m 5 years	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds.				
UK AAA	Residential Mortgage Based Schemes (RMBS) £25m				

Investment Limits: The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Revisions made to this Investment Strategy from the 17/18 Strategy:

- The Authority at its meeting of 13th September 2017 approved undertaking investments in unrated and secured corporate bonds. The investment limits for this class was set at £5m with a maximum duration of 5 yrs.

- It is proposed to use a bank whose ratings fall below the criteria specified in Appendix 5, Table1; if the bank is a UK part nationalised /nationalised bank. These banks are deemed to be strategically important to the UK economy and the Government stake in these companies provides a stronger covenant.

- The Investment limits in Table 2 above have been extended to £35m from £25m. This increase provides the Authority with additional scope to make investments with institutions that have a strong credit rating and offer better yields.

- An additional investment category of Residential Mortgage Backed Security (RMBS) is included in tables 1& 2 above. Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access. This will enable officers to optimise returns on liquid assets and help achieve the Authority's treasury investment income budget.

Appendix 6 – Specified and Non Specified Investments

Specified investments: The CLG Guidance defines specified investments as those:

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

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limits	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£35m	per Appendix 5, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 5, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£35m	per Appendix 5, Table 1
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 5, Table 1		per Appendix 5, Table 1
Money Market Fund		Long Term A- [3]	£25m	
Enhanced Cash Funds		Long Term AA/Aa[4]	£25m	
Bond Funds		Investment Grade BBB or higher	£25m	
Gilt Funds		UK Sovereign Rating	£25m	
Property Funds		UK Property Only	£25m	
Equity Funds		FTSE 100 Companies Only	£25m	
Mixed Asset Funds		Mixed Investments 20% to 60% shares only	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	
1. £35m Limit per bank / banking group.				
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.				
3. Investments will be made with those MMF's which have long term rating of A-				
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating				

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

	Cash Limit £m
Total long-term investments	75
Total Investments without credit ratings or rated below A-	20
Total Investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	15
Total non-specified investments	**110**

NON SPECIFIED INVESTMENTS

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 5, Table 1	10 yrs.	£75m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£20m
		Other banks and building Societies rated below A-.	N/A		
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	Non UK Banks	Per Appendix 5, Table 1	10 yrs.	£15m
	Total non-specified investments				**£110m**

Appendix 7 – Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.
As stated in the section 9.7 of the main report, these indicators are subject to review per the revised CIPFA prudential code published in December 2017.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A-

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£20m[1]

1. Revised to £20m from £30m, as short term temporary borrowing is readily available in current market conditions at attractive rates. This will help officers optimise returns.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross [principal borrowed will be:

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	30%	35%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. (LOBO option dates are treated as potential repayment dates and variable rate borrowing is excluded)

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£75m	£75m	£75m

Prudential Indicators 2018/19

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.
To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

As stated in the section 9.7 of the main report, these indicators are subject to review per the revised CIPFA prudential code published in December 2017.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
General Fund	66.359	90.968	137.946	53.894	29.920	4.035
HRA	37.542	51.723	31.140	21.442	42.778	39.803
Total Expenditure	**103.901**	**142.691**	**169.086**	**75.336**	**72.698**	**43.838**
Capital Receipts	17.183	39.639	23.223	7.395	23.359	8.659
Government Grants	29.037	40.844	65.066	32.925	4.087	4.850
Reserves & Revenue	33.868	21.777	13.976	7.991	15.727	26.303
S106	0.809	1.347	0.693	0.000	11.620	0.000
External Funding	0.000	16.855	16.565	1.273	3.270	0.000
Borrowing	23.004	22.229	49.563	25.752	14.635	4.026
Total Financing	**103.901**	**142.691**	**169.086**	**75.336**	**72.698**	**43.838**

Estimates of Capital Financing Requirement (CFR): The CFR measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Actual £m	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m	31.03.23 Estimate £m
General Fund	75.910	97.438	117.583	164.584	185.741	194.444	192.861
HRA	174.669	174.669	174.669	174.669	174.669	174.669	174.669
Total CFR	**250.579**	**272.107**	**292.252**	**339.253**	**360.140**	**369.113**	**367.530**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Actual £m	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
Borrowing	214.571	210.234	210.234	230.234	260.234	260.234

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	360.100	369.100	367.500
Other long-term liabilities	10.000	10.000	10.000
Total Debt	370.100	379.100	377.500

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	448.200	458.600	457.900
Other long-term liabilities	10.000	10.000	10.000
Total Debt	458.200	468.600	467.900

Ratio of Financing Costs to 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 financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
General Fund	1.89	2.17	3.28	5.72
HRA	4.00	3.40	3.50	3.50

Ratio of financing costs to the net revenue stream is set to increase gradually as the Authority's commercial agenda moves forward. The above figures incorporate borrowing pressures that may result due to the commercial undertakings.

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the new capital programme.

Incremental Impact of Capital Investment Decisions	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	17.14	36.88	82.08
HRA - increase in average weekly rents	0.45	0.22	0.20

Appendix 8 – Borrowing in advance of need

Borrowing is primarily required to finance the council's capital expenditure programme and is long term in nature. Views of interest rate movements and moreover rising interest rate risk must be managed. This may result in borrowing in advance of need to secure long term finance on advantageous terms and reduce financing risk when capital will be required.

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.

There are attendant risks associated with investments but the council has taken measures to substantially reduce the level of credit risk from holding investments and manage the carry cost (the difference between borrowing costs and investment yield)

Officers will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Risks associated with any borrowing in advance activity will be subject to proper appraisal and subsequent reporting through the mid-year or annual reporting mechanism

Appendix 9 – Minimum Revenue Provision (MRP)

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The DCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £2.9m on a reducing balance method

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, but under exceptional circumstances MRP the annuity or equal instalments method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The council may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.