Report of the Director of
Governance and Partnerships

Agenda Item No: 3(c)
Meeting 28 February 2019

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2019/20

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This report presents the Council's Treasury Management Policy Statement, Treasury Management and Investment Strategy for 2019/20.

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1.2 Key points in the report:

- Investments – the primary governing principle will remain to protect capital rather than maximise return. The council will continue to strive for a low risk balance set against effectively managing public money.
- Borrowing – over the period it is expected that the Council will remain under-borrowed against its borrowing requirement. The council will continue to take a pragmatic approach to minimise carrying costs.
- Governance – frequent reporting will continue through the Audit Committee, including mid-year and year end reporting to Council.

2. BACKGROUND INFORMATION

The legal and regulatory framework

2.1 The annual treasury management and investment strategy was prepared in line with

- CIPFA Code of Practice in the Public Service Fully Revised 2017
- CIPFA The Prudential Code Fully Revised 2017
- MHCLG Guidance
- Local Government Act 2003

2.2 The codes define the manner in which capital spending plans are to be considered and approved and require the Council to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3 OPTIONS FOR CONSIDERATION

The Council is asked to consider:

3.1 Approval of the Treasury Management Policy Statement, the Treasury Management and Investment Strategy 2019/20 Appendix 1 and 2.

3.2 Setting the Prudential Indicators Appendix 3.

3.3 Approval of the MRP Policy (Annex 2 of Strategy)

4. ANALYSIS OF OPTIONS

4.1 The priority for Treasury Management at North Lincolnshire Council is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible but the Council will continue to strive for a low risk balance set against its need to maintain liquidity and its responsibility to manage public money effectively.

4.2 An Analysis of Options is contained within the Treasury Management Strategy at Appendix 2.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 The financial implications of this report are reflected in the medium term financial plan and capital programme presented elsewhere on this agenda.

5.2 The treasury service is provided under shared arrangements with North East Lincolnshire Council. This model requires officers to make daily operational investment decisions for both Authorities. Each Authority will continue to set its Treasury Strategy independently in 2019/20. To avoid the risk of applying the wrong strategy to decisions the working assumption will be that the transacting Authority's Strategy takes precedence at all times.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 **Statutory**

Statutory and best practice requirements are taken into account when framing the Treasury Management Strategy. The Strategy for 2019/20 has been prepared taking into account the revised Prudential Code 2017, the CIPFA Treasury Management in Public Services Code of Practice and related MHCLG Guidance.

6.2 **Risk**

Treasury is a complex area and no related activity is without risk. Specific risks include, but are not limited to:

- Counterparty Credit Risk (the risk of an investment not being repaid)
- Liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due)
- Interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and

- Reputational risk.

6.3 The report, policy statement and Strategy 2019/20 sets out our approach toward mitigating these risks.

6.4 The service will continue to invest in treasury staff through appropriate training to ensure they have the skills and knowledge to meet the demands of the job.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1. Consultation not required. No known conflicts of interest.

8. RECOMMENDATIONS

8.1 That Council approve

a) The Treasury Management Policy (Appendix 1) and Treasury Management and Investment Strategy for 2019/20 (Appendix 2)

b) The prudential indicators for 2019/22 set out in the Strategy (Appendix 3)

c) The Policy on the Minimum Revenue Provision at Annex 2 in the Strategy

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report
CIPFA Treasury Management in the Public Services: Code of Practice 2017
CIPFA The Prudential Code 2017
MHCLG Guidance
Local Government Act 2003

The Treasury Management Policy Statement **Appendix 1**

1. The council defines its treasury management activities as:

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

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

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

4. The council's high level policies for borrowing, borrowing in advance and investments.

   - The council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the council transparency and control over its debt.

   - The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

   - The council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 2

Treasury Management Strategy Statement 2019/20

Contents

Key Messages:

We continue to mitigate risk as much as possible, primarily through the use of short-term investments with highly rated counterparties.

We continue to defer borrowing wherever possible but are also cognisant of the increased potential for future increases in rates and are actively considering how to best manage the interest rate risk carried on historic internal borrowing.

This Strategy is based on our base case that a planned transition arrangement will be in place between the UK and EU from 30 March.

The option remains to return to Council with a revised Strategy mid-year if the risk environment changes.

Director of Governance and Partnerships Overview

It is my view that the priority for Treasury Management at North Lincolnshire Council is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible but we will continue to strive to minimise risk, whilst recognising our responsibility to properly manage public money.

Commencement of the 2019/20 financial year coincides with the UK's formal exit from the EU. This Strategy is based on our base case that there will be transition arrangements in place between the UK and EU from 30 March. The attached Strategy provides a degree of flexibility to cope with a changing risk environment however the option remains to return to Council with a revised Strategy in-year if those risk changes are material.

A projection of gradual rises in interest rates has implications for our capital programme and historic internal borrowing. The forecast of interest rate increases are made against a background of national and international uncertainty and therefore, in 2019-20, I propose continuing our current borrowing strategy of undertaking limited size transactions (up to £5m) at reasonably regular intervals as spending plans and rate paths become more certain. In that way we can hope to manage historically low rates and avoid unnecessary cost of carry.

Becky McIntyre, Director of Governance and Partnerships

15 February 2019

Key Messages:

Approval of an Annual Treasury Management Strategy is a Statutory requirement of the Authority.

Revised reporting is required for the 2019/20 reporting 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 change is 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. The capital investment strategy is a separate report on the Council agenda.

Introduction

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. **Part of the treasury management operation is to ensure that this cash flow is adequately planned,** with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's level of risk appetite, ensuring adequate liquidity over seeking high investment returns.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. The management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the council's risk or cost objectives.

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare a capital investment strategy.

Key Messages:

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."

Scrutiny of the authority's treasury activities is delegated to the Audit Committee.

Introduction (contd.)

Treasury Management reporting

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

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

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

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

c. **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.

Scrutiny
This role is undertaken by the Audit Committee.

This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG Guidance.

Key Messages:

This Strategy aims to provide the Authority with a low risk, yet suitably flexible, approach to Treasury management.

Introduction (contd.)

The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the authority's treasury management strategy.

Treasury Management Strategy for 2019/20
The strategy for 2019/20 covers two main areas:

Treasury management issues
- 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 investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

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

Revised strategy: In accordance with the MHCLG Guidance, the council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the council's capital programme or in the level of its investment balance.

Key Messages:

The potential for change in national policy could affect financial markets over the next year.

The interest rate forecasts provided by Link Asset Services (across) assume a transition agreement is agreed on the UK withdrawal from the EU.

With the help of our Advisors and market tools now available to us we will remain well informed as the new landscape develops.

External Context

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 gives their central view at the time of writing (Jan 2019).

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%

The above forecasts assume an agreed transition from the EU by 29 March or soon thereafter. At their 7 February meeting, the Monetary Policy Committee (MPC) repeated their guidance that future Rate increases would be gradual and would rise to a much lower peak than before the crash: around 2.5% in ten years' time, but have not provided a medium term forecast.

The longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over the last 25 years, we have seen falling bond yields as inflation reduced and then stabilised at lower levels.

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.

Key Messages:

Investment returns and borrowing rates are likely to remain low by historical standards during 2019/20 but to be on a gently rising trend over the next few years. However many factors can impact that forecast.

With tighter global financial conditions and political and economic uncertainties, this year's economic divergence – with U.S. growth accelerating and other regions slowing – should give way to a more synchronized deceleration; the U.S., the Eurozone and China should all see lower growth than 2018.

External Context (contd).

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

- The Bank of England is too slow in its pace and strength of increases in Base Rate and allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The US Federal Reserve causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Funds Rate and reversal of Quantitative Easing

Inflation. The Consumer Price Index (CPI) measure of inflation fell from 2.1% to 1.8% in January. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards as it was produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is expected to add to GDP growth at a time of limited spare capacity in the economy.

Global Picture. With tighter global financial conditions, increased political and economic uncertainties, and fading U.S. fiscal stimulus, this year's economic divergence – with U.S. growth accelerating and other regions slowing – should give way to a more synchronized deceleration; the U.S., the Eurozone and China should all see lower growth than this year.

Investment and borrowing rates

Investment returns are likely to remain low by historical standards during 2019/20 but to be on a gently rising trend over the next few years.

Although borrowing rates have risen from their low points, particularly in periods up to 10 years, longer term rates are still historically low. Our policy of avoiding new borrowing by running down spare cash balances has served us well over recent years. However, this needs to be carefully managed to avoid incurring higher borrowing costs in the future when we may need new borrowing to finance capital expenditure and/or refinance maturing debt. Smaller, more regular tranches of longer term borrowing in place of short-term borrowing may be needed to effectively lock in current low rates.

Key Messages:

There are a number of key indicators to ensure that the council operates its activities within well-defined limits. One of these is to ensure that the council's gross debt does not, except in the short term, exceed its highest forecast CFR over the next three years.

This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Governance and Partnerships reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the forecast period.

Local Context

As at 31.01.2019 the council had £173.7m of borrowing and £24.3m of investments. This is set out in further detail at Annex 1. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Total CFR	**211.6**	**239.9**	**252.9**	**255.6**	**257.9**
Less: Existing External borrowing	189.8	174.6	143.9	139.8	139.4
Internal borrowing	**21.8**	**65.3**	**109.0**	**115.8**	**118.5**
Less: Usable reserves	50.2	34.2	26.2	25.5	25.5
Less: Working capital	(11.5)	(11.5)	(11.5)	(11.5)	(11.5)
Investments(-)/New Borrowing	**(16.9)**	**42.6**	**94.3**	**101.8**	**104.5**

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 council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority forecasts that borrowing will peak at around £240m (including all existing borrowing and maintaining a minimum £10m liquid funds) and so expects to comply with this recommendation during the plan period. This takes into account current commitments, existing plans, and the proposals in the 2019/20 budget report.

Key Messages:

The council has an increasing CFR due to the capital programme, but has modest investments, and will therefore need to borrow in 2019/20. Current forecasts suggest new borrowing of £36m will be required to deliver the council's plans for 2019 to 2022.

Opportunities for rescheduling existing debt are greatly restricted in the current low interest rate environment but will continue to be evaluated, particularly as rates begin to rise.

Borrowing

The council is currently maintaining an under-borrowed position subject to a minimum investment balance of £10m. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt since cash from council's reserves, balances and cash flow has been used as a temporary measure. This is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. However, this strategy has a limited lifespan and only delays, rather than removes, the borrowing required to support capital plans.

With rates on a gentle upward trajectory there is more immediate interest rate risk on our current c£22m internal borrowing figure. The Director of Governance and Partnerships will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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.

Debt rescheduling

As short-term borrowing rates continue to be cheaper than longer term fixed interest rates, there remains some potential to generate savings by replacing long term with short-term debt. However, any such policy needs to be considered in the light of the current treasury position and the cost of debt repayments (premiums incurred).

The reasons for any rescheduling include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

Key Messages:

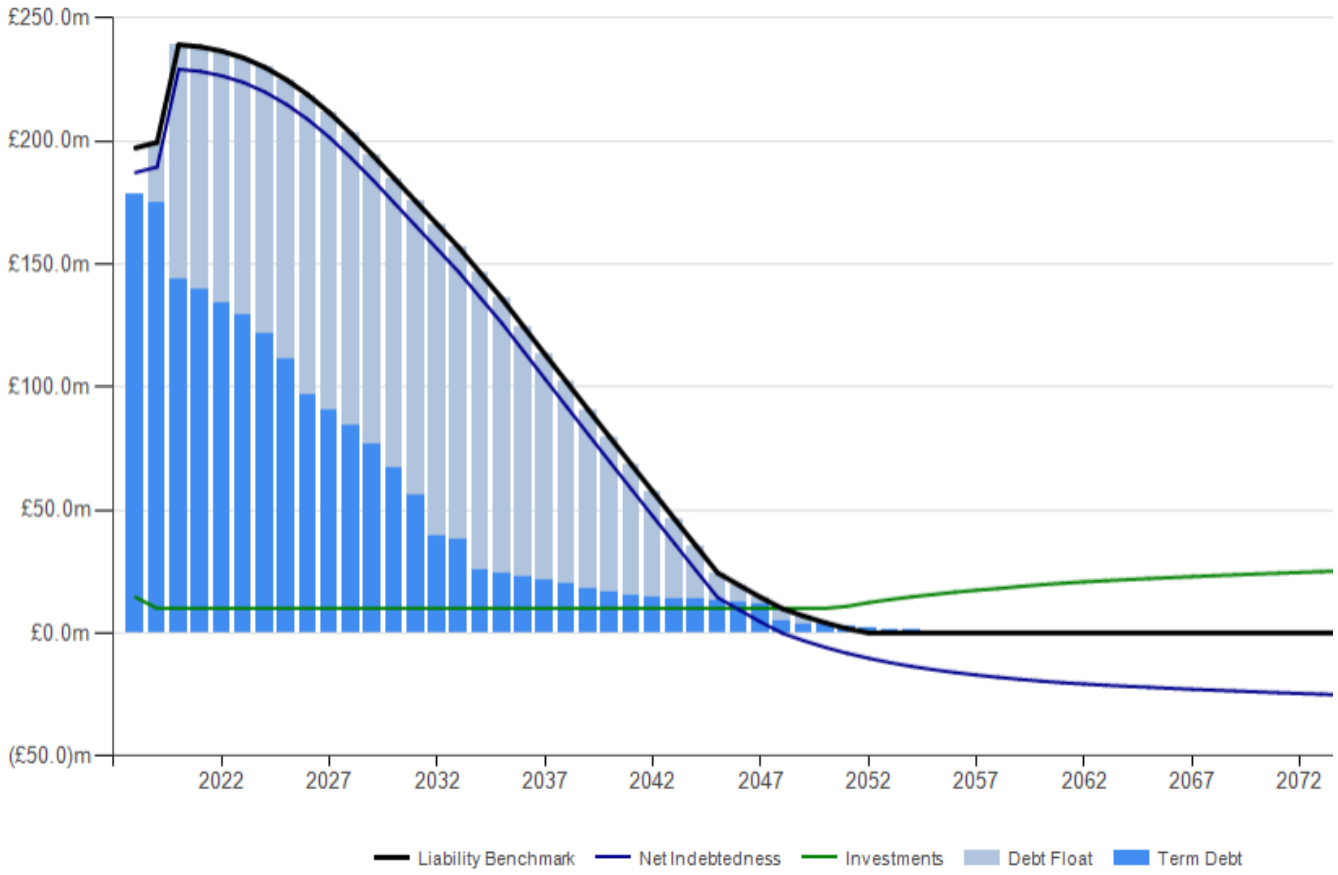
A minimum cash balance of £10m will be maintained to ensure forecast liquidity needs are met.

The lightly shaded area in the Liability Benchmark chart shown here depicts the additional borrowing need the Authority currently projects – a peak requirement of £104m new loans by the end of 2021-22.

Borrowing Strategy

To assist with its long-term treasury strategy, the council uses a liability benchmark, which forecasts our need to borrow over a 50 year period. The benchmark assumes:

- future capital expenditure beyond the current programme funded by borrowing of c£2-6m a year
- minimum revenue provision on new capital expenditure based on an annuity profile
- income, expenditure and reserves all increase by 3.25% inflation a year



Key Messages:

The council continues to utilise it's reserves in place of new borrowing to fund it's capital programme.

From time to time some short-term loans are required to fund cash flow gaps. There is an active inter-Local Authority market for this type of borrowing which typically undercuts PWLB and other sources in terms of cost.

Borrowing Strategy (contd)

Objectives: The council's primary objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

Strategy: Our default strategic response to the expected trend of slowly rising rates is to transact new borrowing in smaller sizes and at relatively steady intervals to average out the cost of borrowing whilst also seeking to limit the cost of carry.

By implementing the above, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / 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. Our appointed advisors will assist the council with this 'cost of carry' and break-even analysis. It may determine whether the council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the council may arrange forward starting loans during 2019/20, 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.

The council may also borrow short-term loans to cover unplanned cash flow shortages or to achieve better value than longer-term options.

Key Messages:

All new borrowing is backed by a Borrowing Decision Notice signed in advance by the S151 Officer. The Notice explains the reason for the amount, term and source of finance among other relevant risk evaluations.

Borrowing Strategy (contd)

Approved Long and Short term Borrowing	Other sources of raising capital finance
• Public Works Loan Board (PWLB) and any successor body • Any institutions approved for investments • Any other bank or building society approved to operate in the UK • UK public and private pension funds (except East Riding Pension Fund) • Capital Market Bond investors • UK Municipal Bonds Agency plc and other special purpose vehicle created to enable local authority bond issues	• Operating and Finance leases • Hire purchase • Sale and Lease back

The council 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.

Municipal Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. Our current understanding is that this will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Although North Lincolnshire Council is a seed investor in UKMBA, any decision to borrow from the Agency will therefore be the subject of a separate report.

Key Messages:

The council may seek financial return from investments outside the Treasury Strategy (for example direct property purchases).

Whilst the aim of security of capital and a positive return is similar to Treasury activity these investments can have characteristics very different to a typical treasury investment. As a result, such schemes are part of the Capital Programme to ensure they are proportionate to the Authority's available resources.

Borrowing Strategy (contd)

Borrowing for Commercial or Social Return

In order to support frontline services, councils have to consider how best they might deploy their resources, knowledge and borrowing capacity to replace lost income. The drivers, characteristics, available credit data and risks associated with such transactions will differ from one scheme to another as well as from general treasury activity. Schemes, for instance, may take into account non-financial 'social' returns alongside pure financial gain.

The council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans which support service outcomes, investments in subsidiaries, and investment property portfolios.

The council will ensure that the organisation's investments are covered in the capital strategy, investment strategy or Commercial strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It recognises that the risk appetite for these activities may differ from that for treasury management.

Common to both 'commercial ' transactions and treasury investments is the need for holistic council-wide planning, robust due diligence and a formal oversight processes.

Key Messages:

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

Investment Strategy

The council holds significant invested funds, representing income received in advance of expenditure, balances and reserves, and short term borrowing for cashflow purposes. During 2018/19 investment balances have ranged between £10.9m and £34.8m. Balances for 2019/20 are anticipated to remain broadly similar.

Objectives: The primary principle governing the council's investment criteria is the security of its investments, then yield and return.

Strategy: the council will ensure that:

- **It maintains a policy covering the categories of investment, criteria for choosing investment counterparties, and monitoring their security; and**
- **It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.**

The Director of Governance and Partnerships 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 those which determine which types of investment instrument are either specified or non-specified. It provides an overall pool of counterparties considered high quality which the council may use, rather than the types of investment instruments to be used.

Key Messages:

The council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA-. It will also only invest in instruments that are denominated in Sterling.

The minimum criteria DO NOT apply to UK Government which remains our default 'safe haven' counterparty.

Whilst these limits also apply to councils own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment limit of £1m will apply in such circumstances.

Investment Strategy (contd.)

Approved Counterparties: The council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: 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	£3m 5 years	£6m 20 years	£5m 20 years	£2m 5 years	£2m 20 years
AA+	£3m 5 years	£6m 10 years	£5m 10 years	£2m 5 years	£2m 10 years
AA	£3m 4 years	£6m 5 years	£5m 5 years	£2m 4 years	£2m 5 years
AA-	£3m 3 years	£6m 4 years	£5m 4 years	£2m 3 years	£2m 4 years
A+	£3m 2 years	£6m 3 years	£5m 3 years	£2m 2 years	£2m 3 years
A	£2m 13 months	£4m 2 years	£5m 2 years	£2m 13 months	£2m 2 years
A-	£2m 6 months	£3m 13 months	£3m 13 months	£1m 6 months	£1m 13 months
BBB+	£1m 100 days	£1.5m 6 months	£1.5m 6 months	£1m 100 days	£1m 6 months
None	n/a	n/a	£5m* 5 years	£0.1m 5 years	£1m 6 months
Pooled funds	Money Market Funds - CNAV or LVNAV - £3m per fund, VNAV £1m per fund but not more than 50% of overall balances in aggregate				

* Other UK Local Authorities – per Authority

The above table is derived from an assessment of Available Reserves and our Advisors general guidance across the ratings spectrum.

Key Messages:

The primary principle for council's investment is the security of its investments. It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

The council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The council's investment priorities will be security first, liquidity second, then return.

Investment Strategy (contd.)

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

Credit Rating: Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria above**.** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Additional requirements under the Code require the council to supplement credit rating information. Further operational market information will therefore 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.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, 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. If the council's current account bank were to be rated BBB unsecured balances with that bank will be minimised in both monetary size and time invested.

Banks Secured: Covered bonds, reverse repurchase agreements (Repo) 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. Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 or GMRA 2011 (Global Master Repo Agreement). Should the Counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- Delivery By Value (DBV)
- Corporate bonds

Key Messages:

Some options require the council to be classed as a 'Professional' counterparty under MiFID II to access them and we have worked with counterparties to ensure access is maintained.

Changes to accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date charged to the income and expenditure account. Such instruments are not currently key to our Strategy.

Investment Strategy (contd.)

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.

Some secured bank investments include the option for the issuer to extend the maturity date even though this is not common practice (most Covered Floating Rate Notes operate in this fashion). When choosing such investments the council will apply Non-Specified Investment criteria as if the Bond were to run to its final allowable maturity date.

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.

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 as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans to, and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing (Housing Associations). These bodies are tightly regulated by and, as providers of public services, retain the likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the 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. Short-term Money Market Funds that offer same-day liquidity and very low volatility may be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period could be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow diversification 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 offer withdrawal after a notice period, their performance and continued suitability will be monitored regularly.

Key Messages:

The council undertakes its own active horizon-scanning of global and national economic data and trends. This work is supported by advice and reporting from our Advisors, Link Asset Services.

Proactive measures will be taken to reduce risk in the light of specific adverse data or on notification from our Advisors.

The council will ensure it has sufficient liquidity across it's investment portfolio and a minimum cash balance of £10m will be maintained.

Investment Strategy (contd.)

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the council's treasury advisers, 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.

Other Information on the Security of Investments: The council 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.

This council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

Investment returns expectations.
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 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

Key Messages:

For ease of operation investments are split into two categories.

Specified Investments are lower risk (either through counterparty credit or duration) and can be made by the council's dealers under the TMSS without further reference.

Non-Specified Investments are still approved by the TMSS but, due their intrinsic higher risk, require the prior agreement of the S151 Officer before they can be placed.

Investment Strategy (contd.)

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

The council 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.

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

- S**pecified 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.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. Due care will be taken to consider the exposure of the council's total investment portfolio to non-specified investments, countries, groups and sectors. The council has determined that it will limit the maximum total exposure to non-specified investments as follows:-

Key Messages:

Even with the limits, systems and in-house and external knowledge we have in place, no treasury activity is without risk. We therefore set counterparty limits with a link to the authority's reserves so that no specific loss event would be catastrophic enough to jeopardise the operation of the North Lincolnshire Council.

Limit for Long-Term Investments are retained to allow some flexibility in a fluid market environment.

Investment Strategy (contd.)

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£2m
Total investments without credit ratings or rated below A- (excluding other Local Authorities)	£1.5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1.5m
Total non-specified investments	£5m

Investment Limits: The council's revenue reserves available to cover investment losses are forecast to be £13.7 million on 31st March 2020. In order that no more than (roughly) a third of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million.

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.

Key Messages:

In addition to limits on individual counterparties the council also operates within a number of category-based limits to promote diversification of risk.

Investment Strategy (contd.)

Table 4: Investment Limits

	Cash limit
For durations less than 365 days in any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a Tri-party Agent/broker's nominee account	£25m per broker
Foreign countries (Minimum Sovereign rating AA-)	£5m per country
Registered Providers	£2m in total
Unsecured investments with Building Societies	£2m in total
Loans to unrated corporates	£1m in total
Money Market Funds	50% of overall balances

Liquidity Management: The council uses cash flow forecasting 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 council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium term financial plan and cash flow forecasts.

Key Messages:

A series of targets (both voluntary and centrally required) are used to facilitate budget evaluation and performance measurement.

These targets are reported on twice yearly.

Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

Security: The council 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 applying a score to each investment (AAA=1, AA+=2, etc.) and 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 council 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 one month period, without additional borrowing.

	Target
Total cash available within 1 month	£10m

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance

Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. All borrowing due to mature within 12 months is classed as variable as renewal will be subject to any short term movement in rates.

	2018/19	2019/20	2020/21	2021/22
Upper limit on variable interest rate exposure	£65m	£70m	£75m	£75m

Key Messages:

Maintaining a spread of maturities across our borrowing portfolio can assist with managing cash flow and re-finance risk (the risk that replacement loans are not available or that interest rate costs differ significantly from the maturing loans).

Our active investment portfolio does not lend itself to longer term investments and in the ordinary course of business deposits over 365 days wouldn't be entertained. However a small limit is proposed in order to allow some flexibility in a fluid market environment

Treasury Management Indicators (contd.)

Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

	2018/19	2019/20	2020/21	2021/22
Upper Limit on Fixed interest exposure	£252m	£288m	£303m	£308m

Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	Upper	Lower
Under 12 months	60%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and more	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.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£2m	£2m	£2m
Current investments as at 31.12.18 in excess of 1 year	0	0	0

Key Messages:

Link Asset Services were appointed as the council's Treasury Advisor from January 2018. Their contract runs until the end of 2019, with the option to extend for a further year.

Members of the Audit Committee receive training annually prior to reviewing the Strategy for the coming year.

Other Items

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

Policy on Use of Financial Derivatives:
The council will not use standalone financial derivatives (such as swaps, forwards, futures and options) . 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.

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. Members of the Audit Committee are provided with timely training prior to reviewing the Strategy each year. This training is provided by our Advisors under the terms of our contract.

The training needs of treasury management officers are periodically reviewed.

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

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

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

Key Messages:

New borrowing for the financing of Capital projects means additional cost for the Authority through higher interest payments.

An appropriate budget for this added cost is incorporated in the Medium Term Financial Plan 2019/22.

Some investment options currently show negative yield but the Authority's primary concerns remain Security and Liquidity.

Other Items (contd)

Investment of Money Borrowed in Advance of Need: The council 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 council 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 council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the council is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2019/20 is £0.050 million. The budget for debt interest paid in 2019/20 is £8 million, based on an average debt portfolio of £220 million at an average interest rate of 3.6%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Negative interest rates remain a possibility on certain investments. The council continues to prioritise Security and Liquidity over yield and so views negative rates only in terms of relative return compared to other options. Where the preference for Security or Liquidity dictates placing an investment against negative return the principal amount shall be deemed constant and the interest return will be accounted for separately.

Benchmarking

This council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded and will also evaluate its performance regularly through benchmarking reports provided by both our Treasury Management System (Treasury Live) and our Advisors, Link Asset Services. Updates will be provided to members at the half-year and outturn.

Key Messages:

In arriving at it's annual Treasury Management Strategy the council considers the direct relationship between risk and reward on both sides of its balance sheet.

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 Finance Officer 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
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Key Messages:

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.

Prudential Indicators 2019/20

Treasury Management Indicators
To demonstrate that the council has fulfilled the objectives it lays out, the Prudential Code requires the following indicators to be set and monitored each year.

Estimates of Capital Expenditure: 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.

Capital Expenditure and Financing	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Total Expenditure	66.7	54.5	24.0	21.0
Capital Receipts	4.3	7.1	3.5	3.0
Government Grants	28.4	28.6	11.8	9.3
PTA Receipts	0.9	0	0	0
Borrowing	33.0	18.7	8.7	8.7
Total Financing	**66.7**	**54.5**	**31.5**	**21.0**

Totals may not add up due to roundings

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

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Total CFR	239.9	252.9	255.6	257.9

Key Messages:

Although net indebtedness is forecast to increase over the next 4 years, total debt is expected to remain below the CFR and both the Operational and Authorised Borrowing Boundaries during the forecast period.

As borrowing arrangements typically form long term fixed commitments the ability, once drawn, to generate savings from this budgeted spend is very limited.

Prudential Indicators (contd.)

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.

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	161.6	189.8	239.9	252.9	255.6
Expected change in Debt	27.2	32.4	14.0	(6.8)	(7.6)
Actual gross debt at 31 March	**189.8**	**222.2**	**236.2**	**229.4**	**221.8**
The Capital Financing Requirement	211.6	239.9	252.9	255.6	257.9
Under / (over) borrowing	21.8	17.7	16.7	26.2	36.1

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. As borrowing arrangements typically form very long term commitments the ability, once drawn, to generate savings from this portion of spend is very limited.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Revised %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	9.29%	9.66%	11.16%	11.28%

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Capital Prudential Indicators are included here for formal approval by Full Council

The limits set do not commit the Authority to any increase in actual borrowing.

Other Prudential Indicators

Authorised Limit for External Debt: A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and can only be set or revised by 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.

The Authorised Limit is a 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.

Council is asked to approve the following Authorised Limit and Operational Boundaries:

Authorised Limit	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	250	283	295	298
Other long-term liabilities	2	5	8	10
Total Authorised Limit	**252**	**288**	**303**	**308**

Operational Boundary for External Debt: This is the limit beyond which external debt is not normally expected to exceed. (i.e. prudent but not worst case). 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 leases and other liabilities that are not borrowing but form part of the council's debt.

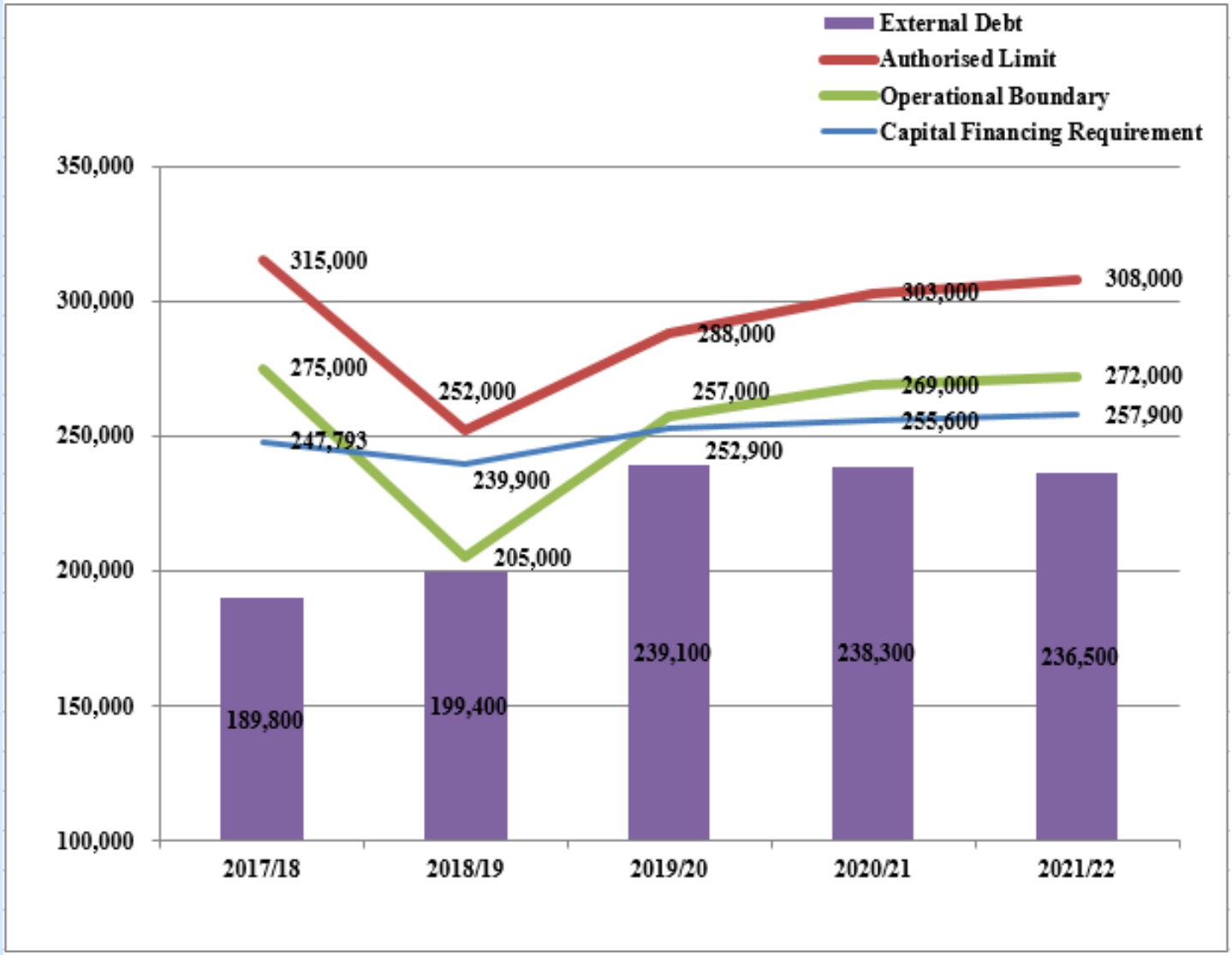
Operational Boundary	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	205	255	266	268
Other long-term liabilities	0	2	3	4
Total Operational Boundary	**205**	**257**	**269**	**272**

Adoption of the CIPFA Treasury Management Code: The council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in February 2018.

Key Messages:

A summary of the council's projected borrowing set against it's Prudential Indicator Limits is shown across.

Borrowing Prudential Indicators Summary



Key Messages:

The council has funded much of its historic Capital Programme through borrowing. This has resulted in a net debt of £149.4m at the end of January.

This is a similar level to 2017, primarily as a result of capital and loan repayments being closely matched with new borrowing.

Annex 1- Existing Investment & Debt Portfolio Position

	31.01.2019 **Actual Portfolio** **£m**	31.01.2019 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**145.7**	**3.91**
PWLB – Variable Rate	**0.0**	**N/A**
Local Authorities	**28.0**	**0.96**
Bank Loans	**0.0**	**N/A**
Total Gross External Debt	173.7	3.44
Investments:		
Managed in-house		
Short-term investments	24.3	0.64
Long-term investments	0.0	N/A
Total Investments	24.3	
Net Debt	149.4	

Key Messages:

The council is required to offset the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).
It is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

Annex 2 – Annual Minimum Revenue Provision Statement

Where the council 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 since 2008. The Local Government requires the council to have regard to the Ministry of Housing, Communities and Local Government's Statutory Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently updated in February 2018.

The MHCLG 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 incorporates options recommended in the Guidance as well as locally determined prudent methods.

The council uses the asset life annuity option for all schemes. This policy was implemented from 2017/18.

The council can provide capital loans as part of its capital investment programme. MRP on loans secured against assets will be charged over the life of those assets. MRP on unsecured loans will be charged over the period of the loans.

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PRUDENTIAL GUIDELINE INDICATORS **APPENDIX 3**

	2019/20	2018/19
	Budget £m	**Estimate* £m**
(i) capital expenditure	54.5	66.7
(ii) General Fund ratio of financing costs to the net revenue stream	9.66%	9.29%
(iii) The capital financing requirement	252.9	239.9
(iv) the authorised limit for external debt including borrowing and other long term liabilities	287.9	251.8
(v) the operational boundary for external debt including borrowing and other long term liabilities	256.7	204.6
(vi) forecast borrowing and other long term liabilities	254.7	199.4
	%	**%**
(vii) upper limit for fixed rate exposure	100	Target Met
(viii) upper limit for variable rate exposure	40	Target Met
(ix) upper and lower limits for maturity structure of borrowing		
UPPER LIMIT		
under 12 months	40	)
12 months and within 24 months	20	)
24 months and within 5 years	50	} Target Met
5 years and within 10 years	75	)
10 years and above	90	)
LOWER LIMIT		
under 12 months	0	)
12 months and within 24 months	0	)
24 months and within 5 years	0	} Target Met
5 years and within 10 years	0	)
10 years and above	25	)
(x) total principal sums invested for periods longer than 365 days	nil	nil

*Revised Full-Year 2018-19 Programme