

Treasury Management Strategy (TMS) for 2019/20

1. The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
2. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. There is also now the new requirement to produce a Capital Strategy – also for determination by full Council.
3. The Treasury Management strategy covers two remain areas:
 - (i) Capital issues
 - the capital plans (in summarised form) and the prudential indicators;
 - the Minimum Revenue Provision (MRP) policy.
 - (ii) 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
 - policy on use of external service providers.
4. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.
5. The strategy for 2019/20 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Link Asset Services (previously Capita Asset Services).

Key Changes to the Strategy

6. The key changes from the previous year's strategy are:
 - i. The Council has taken on additional borrowing in 2018/19 in respect of the Capital programme and the Income Strategy. The level of borrowing has risen significantly but remained within the operational and authorised boundaries.

The income generation plans of the Council are expected to involve considerable new borrowing again in 2019/20 and the years ahead. The borrowing limits proposed in the strategy are those previously agreed when determining the budget for 2018/19 (included the £50m for income generation) and allow very limited headroom to borrow for the current and forthcoming schemes within the Capital programme without reliance on the capital receipts from land and property disposals.

- ii. The majority of the new borrowing in future years will be for Capital purposes, but there will inevitably continue to be a smaller requirement for loans that are revenue in nature e.g. loans to the housing company for running costs. Such monies cannot be borrowed from the Public Works Loan Board, and will be financed from existing Council reserves.
- iii. The Council is required to make a Minimum Revenue Provision in respect of its borrowing – to ensure debt is repaid over an appropriate period. Where the Council is making significant investments in property, housing or other programmes the Council's MRP policy enables the Council to match the principal repayments made on loans arranged with a near equal MRP payment (an annuity methodology).
- iv. Investment returns should increase in the next few years as the bank base rate increases, albeit marginally. The overall cash return may however decrease as the Council's reserves diminish.
- v. The Council invested some of its existing reserves in a Property Fund – up to a limit of £2m by 31 March 2018. This strategy proposes to invest further monies up to £3m in another CCLA (Churches, Charities, and Local Authorities) Fund which is less exposed to property and is more liquid (available to be recalled at shorter notice and with less loss of capital and interest). This is seen as important given the potential calls on reserves and the considerable uncertainty surrounding the impact of Brexit.

Balanced Budget

7. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to calculate its Council Tax requirement. In particular, Section 31 requires a local authority in calculating the Council Tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. Thus any increases in costs (running costs & borrowing costs) from new capital projects must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

PRUDENTIAL AND TREASURY LIMITS FOR 2019/20 TO 2021/22

The Council's Capital Position (Prudential Indicators)

8. The Council's capital expenditure plans are the key driver of treasury management activity.
9. The prudential code requires the local authority to identify prudential indicators that enable members, officers and the public to make a meaningful judgement on

the Council's total exposure from borrowing and investment decisions. The indicators are required to cover both the Council's current position and the expected position assuming all planned investments in the forthcoming years are completed.

10. This part of the report is structured to update:

The Council's capital expenditure plans;

How these plans are being financed;

The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

Reviewing the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

11. This table shows the revised estimates for capital expenditure for the current and next three financial years.

	Revised 2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Gross Capital Expenditure	26,312	19,251	7,347	3,736
Net Capital Expenditure	22,456	16,656	5,808	2,236
Financing from own resources	1,004	780	208	120
Borrowing Requirement	21,452	15,876	5,600	2,116

12. In terms of **net cost**, the 2018/19 programme has been revised to £22,456,000 from £28,691,000. The 2019/20 programme amounts to £16,656,000 (£19,251,000 Gross).

Capital Expenditure – Financing

13. The table above summarises the capital expenditure plans and how these plans are being financed – either by own resources e.g. Section 106, Capital receipts or through borrowing. New Capital schemes will generally be financed by borrowing, unless Capital receipts from the sale of assets are available.

14. The larger schemes in the capital programme which are expected to require financing in **2018/19** from borrowing are:-

- Commercial property purchases estimated at £15m
- Loans to Hastings Housing Company Ltd estimated at £5.7m
- Temporary accommodation estimated at £691,000

15. The financing requirements for larger schemes in **2019/20** include:

- Loans to Hastings Housing Company Ltd estimated at £5m
- Commercial property purchases estimated at £4.7m (Stage Payment)
- Energy initiatives at £1.66m
- Street Cleaning Vehicles at £780,000
- York buildings at £602,000
- Country Park Interpretive centre at £266,000 (net)
- Housing – Temporary Accommodation at £2.5m

Impact on the prudential indicators

16. The treasury indicators for borrowing activity are the **Authorised Limit** and the **Operational Boundary** for external debt.

The **Authorised Limit**, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council; it is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected

Authorised limit	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Debt	75,000,000	85,000,000	95,000,000	95,000,000
Other long term liabilities	5,000,000	5,000,000	5,000,000	5,000,000
Total	80,000,000	90,000,000	100,000,000	100,000,000

movements.

17. The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed.

Operational boundary	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Debt	65,000,000	75,000,000	85,000,000	85,000,000
Other long term liabilities	5,000,000	5,000,000	5,000,000	5,000,000
Total	70,000,000	80,000,000	90,000,000	90,000,000

18. Essentially the Council is required to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is 'acceptable'.
19. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in the Capital programme incorporate financing by both external borrowing as well as other forms of liability e.g. Credit arrangements (such as leases).
20. The Authorised Limit and operational boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years by full Council as part of this strategy.
21. **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.**

PROSPECTS FOR INTEREST RATES

22. The Council has appointed Link Asset Services (previously Capita Asset Services) as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates (Appendix 2 – Economic Review). The following table gives their view.

Link Asset Services Interest Rate View														
	Dec-18	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%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

23. The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August 2018 to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018.
24. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The timing of the next increase in Bank Rate is very uncertain. Forecast to be in

May 2019 or December 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

25. The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment.
26. Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
27. 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.
28. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

BORROWING STRATEGY

29. The capital expenditure plans set out in the budget provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

Current Portfolio Position

30. The Council's forecast debt position for 31 March 2019, if no further borrowing is taken for the rest of the financial year, as at 28 December 2019, amounted to £44.7m (See Table below).

Table 1 – Borrowing

Debt	1 April 2018 Principal	Rate	Maturity	01-Apr-19 Principal	Rate
PWLB Loan 1	£7,500,000	4.80%	2033	£7,500,000	4.80%
PWLB Loan 2			2016		
PWLB Loan 3	£0	1.63%	2018	£0	1.63%
PWLB Loan 4	£2,000,000	0.40% (*Variable)	2019		0.40% (*Variable)
PWLB Loan 5	£909,027	3.78%	2044	£909,027	3.78%
PWLB Loan 6	£1,788,235	3.78%	2044	£1,788,235	3.78%
PWLB Loan 7 (Annuity)	£243,901	1.66%	2026	£215,148	1.66%
PWLB Loan 8	£1,000,000	2.92%	2056	£1,000,000	2.92%
PWLB Loan 9	£1,000,000	3.08%	2046	£1,000,000	3.08%
PWLB Loan 10	£1,000,000	3.01%	2036	£1,000,000	3.01%
PWLB Loan 11	£1,000,000	2.30%	2026	£1,000,000	2.30%
PWLB Loan 12	£2,000,000	2.80%	2054	£2,000,000	2.80%
PWLB Loan 13	£1,000,000	2.42%	2028	£1,000,000	2.42%
PWLB Loan 14	£2,000,000	2.53%	2057	£2,000,000	2.53%
PWLB Loan 15	£2,000,000	2.50%	2059	£2,000,000	2.50%
PWLB Loan 16	£2,000,000	2.48%	2060	£2,000,000	2.48%
PWLB Loan 17 (Annuity)	£7,222,996		2057	£7,113,729	2.53%
PWLB Loan 18 (Annuity)	£8,350,000		2057	£8,232,535	2.72%
PWLB Loan 19			2028	£2,000,000	1.98%
PWLB Loan 20 (Annuity)			2058	£4,000,000	2.55%
Total Debt	£41,014,159	3.15%		£44,758,674	3.03%

The Council has loaned money to other organisations. As at 30 September 2018 three longer term loans are outstanding. Namely:

Table 2 – Loans to Other Organisations

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal £	Term
Amicus /Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Foreshore Trust	1.66	21/03/2016	20/03/2026	229,583	Annuity
The Source	2.43	17/12/2015	17/12/2025	19,304	Annuity
			Total	2,037,122	

31. A further loan has been agreed with Freedom Leisure in respect of the new climbing wall at Summerfields leisure Centre (as per the cabinet report of 8 April 2018). The loan agreement for some £134,037 is being finalised.
32. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235 - maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – annuity loan); these correspond to PWLB loans in Table 1 above. The £25,000 loan to the Source is repayable over a 10 year period and is financed from HBC reserves. The above table excludes the loans to the Hastings Housing Company.

Borrowing Limit – Capital Financing Requirement (CFR)

33. The first key control over the treasury activity is a prudential indicator to ensure that borrowing will only be for a capital purpose. The CFR (Capital Financing Requirement) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure which has not been funded from grants, revenue, reserves or capital receipts will increase the CFR.
34. The Council has at the time of writing some £46.7m of PWLB debt, with £2m of debt being repaid in January 2019, and should look to borrow up to the projected level of the CFR (£60.1m) by the end of March 2019 or risk exposure to interest rate movements .
35. There has been, not unexpectedly, a big impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow. The Capital Financing Requirement has increased significantly over the last 18 months. It is expected to reach some £78.6m by 2021/22 (based on the capital programme approvals to date).

36. As a key indicator the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
37. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
38. The total CFR can also be reduced by:
- (i) the application of additional capital financing resources (such as unapplied capital receipts); or
 - (ii) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
39. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years.
40. The Council has been looking to be in a fully funded position given the projected future increases in borrowing rates. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. Previously cash supporting the Council's reserves, balances and flow has been used as a temporary measure to fund the Capital expenditure. This strategy had been considered prudent as borrowing costs are increasing. However there is a cost of doing this as investment returns are low compared to borrowing costs and counterparty risk is still an issue that needs to be considered.
41. The plans for income generation, which require substantial new borrowing by the Council in the future, play a part in the consideration as to when to borrow and the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property acquisitions or property funds, there remains a much stronger case for minimising the level of internal funding in order to ensure a lower level of borrowing risk in the future.
42. The table below provides an estimate of the Council's Capital Financing Requirement (CFR) for the current and next 3 years. Please note the table below excludes the impact of leases (which have minimal impact at present <£10k).

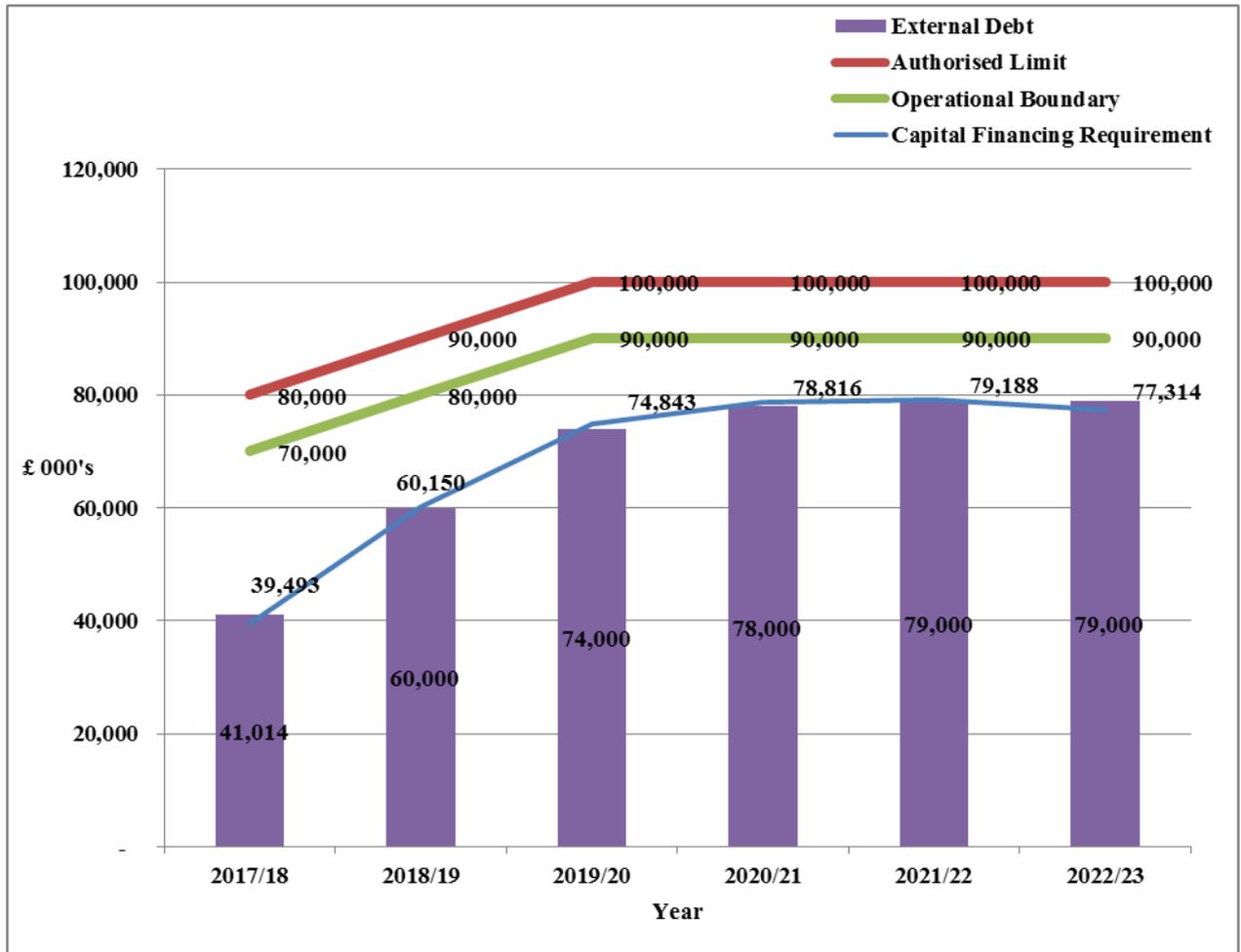
CFR	2018/19 (Adj. Est)	2019/20 (Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)
	£	£	£	£	£
CFR-Opening	39,493,000	60,150,000	74,842,000	78,814,000	79,155,000
Less MRP	-795,000	-1,184,000	-1,628,000	-1,775,000	-1,875,000
Plus, New Borrowing	21,452,000	15,876,000	5,600,000	2,116,000	0
CFR Closing	60,150,000	74,842,000	78,814,000	79,155,000	77,280,000

43. The table below highlights the Council's projected gross borrowing position against the CFR (showing the level that is financed from internal borrowing).

Table 3 Internal Borrowing	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement	60,150,000	74,843,000	78,816,000	79,188,000
External Borrowing Est.	44,750,000	74,000,000	78,000,000	79,000,000
Net Internal Borrowing	15,300,000	843,000	816,000	188,000

44. The Council has some £44.758m of PWLB debt (at 29 Jan 2019), and could potentially borrow up to a level of £60.15m (estimated CFR at 31 March 2019). The £60.15 figure does take account of projected new capital spending in the remainder of this year which is expected to be funded by new borrowing.
45. The Council is now (27 January 2019) maintaining a very small under-borrowed position, but this could increase to some £15.3m if the Capital programme completes as forecast and new loans are not taken. In future years the capital borrowing need (the Capital Financing Requirement), is nearly fully funded with loan debt as against cash supporting the Council's reserves, balances and cash flow being used as a temporary measure. This strategy is seen as prudent when interest rates are forecast to increase. However there is a cost, given that investment returns are low and counterparty risk has been relatively high. New borrowing will continue to be taken if good rates are available in the absence of any meaningful Capital receipts being available to fund Capital expenditure.
46. Borrowing activity is constrained by prudential indicators particularly the CFR, and by the authorised limit. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

47. Table: External Debt, Authorised limits and CFR Projections



48. Borrowing – Overall Limits

In determining what is a prudent level of borrowing, the Council needs to ensure that it would still be able to provide core services if its investments or income generating initiatives failed – at least in part. As a guide each £1m of new borrowing, financing an asset with a life of 40 years would currently cost the Council some 5.5 % p.a. (based on a maturity loan with a 3% interest rate) i.e. £55,000 p.a.. The Council if investing money in property based assets as against other ventures would have assets to sell if necessary – thus reducing overall risk.

49. In taking on significant levels of additional debt the Council has to ensure that it can afford to do so. It also needs to ensure that it has an affordable exit strategy in the event that expected returns are not realised. Where property is concerned there is normally an asset to dispose of and such schemes are not therefore at the higher end of the risk spectrum. In arriving at the original figure of an additional £50m on the borrowing limit, it was, and still remains the position, that the Council currently has sufficient reserves to ensure that it could dispose of assets in a reasonable period and not be forced into an immediate fire sale. In the event that property values fell by say 20% the Council would not be forced to sell assets providing the rental streams were secure.

50. **Borrowing – Certainty Rate**

The Council again registered for the PWLB certainty rate earlier in the year which has given a 20 basis point reduction in the average rate of borrowing. The Council will look to do so again for 2019/20 and thereafter if it remains available.

51. **Borrowing – Change of Sentiment**

In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Chief Finance Officer, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- a. if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered
- b. if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

52. **Borrowing – Timing**

The general aim of this treasury management strategy is to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However to minimise longer term costs it needs to borrow when rates are a historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

53. Given that rates look set to increase and given an increased borrowing requirement relating to Capital programme it is recommended that new borrowing is taken rather than use internal balances for long life assets. Likewise, given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.

Summary

54. New borrowing has been taken over the last 18 months, to not only take advantage of the historically low rates, but to ensure that the Council's own reserves are cash backed should restrictions be placed on the amount and levels of borrowing that authorities can undertake (particularly from the PWLB) and a balanced view will continue to be taken.
55. The plans for income generation require further substantial new borrowing by the Council. The plans play a large part in the consideration as to when to borrow and

the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property funds, there has been a much stronger case for reducing the level of internal funding in order to ensure a lower level of borrowing risk in the future.

56. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration has been given to weighing the short term advantage of internal borrowing against the potential increase in long term costs as rates rise. As such additional new borrowing has been, and will continue to be, taken.
57. The use of PWLB variable rate loans for up to 10 years will still be considered as they can be repaid early without early redemption premiums. They can also be converted into longer dated fixed rate debt should it be considered prudent to do so.
58. The use of fixed rate market loans will also be considered should rates be below PWLB rates for the equivalent maturity period.
59. The use of either PWLB maturity or annuity loans will be considered in order to minimise annual borrowing costs.

Policy on borrowing in advance of need

60. 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
61. In determining whether borrowing will be undertaken in advance of need the Council will:
 - a. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
 - b. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
 - c. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
 - d. consider the merits and demerits of alternative forms of funding.
 - e. consider the appropriate funding period.
 - f. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them.

Debt Rescheduling

62. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.
63. The Council also keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. When last reviewed on the 27 September 2017 the early repayment cost of the £7.5m PWLB loan, maturing in 2033, would amount to £3,177,343. No debt rescheduling is being contemplated at present.
64. The reasons for any rescheduling to take place will include:
- a. the generation of cash savings and / or discounted cash flow savings,
 - b. helping to fulfil the strategy outlined above
 - c. enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Minimum Revenue Provision (MRP)

65. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.
66. The Council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision (MRP). This can be achieved by equal annual instalments (current practice) or an annuity method – annual payments gradually increasing over the life of the asset. Where an annuity loan is taken, the Council’s policy (Appendix 1) was amended last year to reflect the matching, as far as possible, of the MRP with the actual principal repaid (within each debt repayment).
67. The MRP for 2019/20 is estimated at £1,184,000 (the statutory charge to revenue that remains within the accounts).

ANNUAL INVESTMENT STRATEGY

Investment Policy

68. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.
69. In accordance with the above 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 Short Term and Long Term ratings.
70. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
71. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
72. Investment instruments identified for use in the financial year are listed in an attached Appendix under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.
73. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
74. In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

Creditworthiness Policy

75. This Council uses the creditworthiness service provided by Link Asset Services - the potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. This service has been progressively enhanced over the last couple

of years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

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

76. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. This is a service which the Council would not be able to replicate using in house resources.

77. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Asset service's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands: -

- Purple 2 years (but HBC will only invest for up to 1 year – except Property Fund and Diversified Income Fund)
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

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

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

80. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few

banks on its approved lending list. The Link creditworthiness service does though, use ratings from all three agencies, but by using a risk based scoring system, does not give undue weighting to just one agency's ratings.

81. The Council is alerted to the changes to credit ratings of all three agencies through its use of the Link creditworthiness service. These are monitored on a daily basis with lists updated weekly by Link Asset Services.
82. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.
83. The Council only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The maximum investment in any non UK country is not to exceed £10m.

Investment Strategy

84. The table below provides a snapshot of the investments and deposits held mid year (on 30 September 2018). The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

Table – Investments and Deposits

Counterparty	Rate/ Return	Start Date	End Date	Principal	Term
Australia & NZ BCG Ltd	0.90%	29/08/2018	29/11/2018	5,000,000	Fixed
Birmingham City Council	1.05%	30/08/2018	28/08/2019	3,000,000	Fixed
Blackpool Borough Council	0.80%	28/09/2018	28/01/2019	2,000,000	Fixed
Blaenau Gwent CBC	0.50%	25/06/2018	03/10/2018	2,000,000	Fixed
DBS Bank Ltd London	0.77%	18/09/2018	18/10/2018	3,000,000	Fixed
Eastleigh Borough Council	0.65%	24/08/2018	25/02/2019	5,000,000	Fixed
London Borough of Harrow	0.75%	10/09/2018	10/04/2019	2,000,000	Fixed
Barclays Corporate	0.40%			2,998,426	Call
NAT West	0.05%			1,720	Call
Santander	0.40%			505	Call
			Total	25,000,651	

85. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.
86. The Council has various limits depending upon the credit rating e.g. £5m with any one institution with a minimum short term rating of F+, and a long term rating of A+ or above, supported by a red (6 month) rating by Capita Asset Services. The

£5m limit generally represents a level of up to 25% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

87. The Eurozone and Brexit have led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits on a daily basis if necessary to ensure that monies can be placed with appropriate institutions.

Investment Strategy – Property Fund

88. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

CCLA - LA's Property Prices and Dividend yields							
End of	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Offer Price p	329.35	324.17	324.10	322.40	319.44	314.48	307.19
Net Asset Value p	308.53	303.67	303.61	302.01	299.24	294.60	287.77
Bid Price p	303.75	298.97	298.90	297.33	294.60	290.03	283.31
Dividend* on XD Date p	3.32	3.17	3.28	3.21	3.38	3.34	
Dividend* - Last 12 Months p	12.98	13.04	13.64	13.70	13.71	13.13	13.19
Dividend Yield on NAV %	4.21	4.29	4.49	4.54	4.58	4.46	4.58
Fund Size £m	1,099.0	1,047.8	1,027.7	976.3	930.8	836.2	710.2

89. The dividend yield is around 4.9% on the net asset value, which results in quarterly cash dividends of around £21,000. Full year dividends are estimated at around £84,000 (£63,614 as at 31 December 2018).

Table Showing Capital Value Increases since April 2017

Units (651,063)	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Mid Market Price (£)	2,008,724.67	1,977,083.01	1,976,692.37	1,966,275.37	1,948,240.92	1,918,031.60	1,873,564.00
Bid Price (£)	1,977,603.86	1,946,483.05	1,946,027.31	1,935,805.62	1,918,031.60	1,888,278.02	1,844,526.59

90. The Capital value increased by some 4.95% per annum between April 2017 and March 2018 and that trend is currently continuing. It is important that this is continued to be viewed as a longer term investment (5 years plus), albeit the original Capital value is now projected to be recovered by April 2019.

Investment Strategy – Diversified Income Fund (CCLA)

91. The Council's reserves are diminishing and given uncertainties around Brexit and the implications, either way, over the next few years, the Council needs to ensure that it has cash available when required. The Council invested £2m last financial year in the CCLA Property Fund which has been very successful to date, but will have taken some 2 years to recover the original Capital value of the investment made.
92. It is recommended that the Council invests up to £3m in a more diversified fund that returns just above 3% which although a lower return than the Property Fund, has much lower entry and exit costs but still achieves more than if invested solely as cash. In terms of the complete fund, 75% of it could be liquidated within 2 days if necessary – unlike the existing Property Fund.
93. Investing in the fund would still be viewed as a long term investment, would provide a higher rate of return than current cash investments, and provide a more diversified investment income stream. The additional interest earned, estimated at some £60,000 p.a. is included in the 2019/20 budget.
94. Due diligence on CCLA (Churches, Charities and Local Authorities) has been undertaken previously and is owned by its investors. Currently there are 28 authorities and 2 charity clients investing £126m in this fund with more in the pipeline. More details on the fund are included in Appendix 11 and the fact sheet is included in Appendix 12.

Investment Strategy – View on Interest Rates

95. Investment returns have started to increase in 2018/19 and are expected to be on a gently rising trend over the next few years.

Investment Return Expectations.

96. 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%
97. The Council will look to report on the actual return achieved on its cash investments, both in terms of percentage and actual cash. It will look to report separately on different categories of cash investments e.g. Property Fund. It will use the London Interbank Bid Rate (3 month rate) as a comparator.

Investment Strategy – Income Generation

98. The income generation proposals that the Council is looking at require substantial investments to be made by the Council and will necessitate new borrowing. The levels of new borrowing that the Council can afford to take on board for new commercial property purchases and development, housing and energy schemes, etc, will be dependent upon the individual proposals and credit worthiness of the counterparties involved. Due to the timescales within which some property purchasing and disposal decisions have to be made the Council's existing governance arrangements and delegated authorities have been revised e.g. establishment of Income Generation Board.
99. The additional risks that the Council is taking on need to be considered in the context of the totality of risk that the Council faces e.g. Pier claim, rates revaluation, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.
100. The income generation proposals require revenue loans to be provided to Council owned companies. Such funding is not be available from the Public Works Loan Board, and is therefore from existing Council reserves and balances. The rates of interest that are charged to the company (s) are determined at the time of the advance and need to comply with state aid rules where thresholds are exceeded – a market rate being payable.

Accounting Implications

101. International Financial reporting Standard Number 9 (IFRS 9) – This is an important consideration when assessing any investments now and will encompass the 2018/19 Accounting Code of Practice proposals for financial assets.
102. Expected Credit Loss Model – Whilst this should not be material for normal treasury investments, longer dated service investments, loans to third parties or loans to subsidiaries may be more problematic;
103. As the code is currently structured, equity related to the “commercialism” agenda, property funds, equity funds and similar, are likely to be classified as Fair Value through the Profit and Loss (FVPL). It is understood some funds are suggesting the election to Fair Value through Comprehensive Income (FVCI) applies to property funds as it would be deemed to be an equity investment. In late 2018 the government have confirmed there will be a statutory override to FVPL for these types of investment for a period of 5 years.

End of Year Investment Report

104. At the end of the financial year, officers will report to Council on its investment activity as part of its Annual Treasury Report (to be presented by no later than 30 September).

Policy on Use of External Service Providers

105. The Council uses Link Asset Services (Capita Asset Services previously) as its external treasury management advisors. There is currently value in employing external providers of treasury management services in order to acquire access to credit worthiness information and specialist advice.

106. Training

The CIPFA Code requires the responsible officer (Chief Financial Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was provided in November on Joint Ventures. In terms of Treasury management in general, training has been undertaken by members on an annual basis to date and further training is being arranged for all members prior to full Council on 20 February 2019.

The training needs of treasury management officers are periodically reviewed.

107. MiFID II (Markets in Financial Instruments Directive)

In brief, this directive requires the Council to distinguish itself as either a retail or professional client. In order to qualify for professional status the Council is required to show that it has more than £10m in investments, invests regularly (more than 10 times a quarter), as well as having appropriately trained and experienced staff.

108. To date only two counterparties have required us to complete the forms in order to maintain the existing professional status. The directive became law on 1 January 2018.

109. The two parties to date are Link Asset Services and CCLA. A schedule of such counterparties will be maintained, as per the requirements of the Code, should the list expand further.

Scheme of Delegation

110. Please see Appendix 9.

Role of the Section 151 Officer

111. Please see Appendix 10.

APPENDIX 1

Minimum Revenue Provision – An Introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council’s policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

- equal instalment method – equal annual instalments,
- annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2019/20

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/9 , and will assess the MRP for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A major proportion of the MRP for 2019/20 relates to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the

guidance. Certain expenditure reflected within the debt liability at 31st March 2019 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers – subject to the limitations of the government’s investment requirements (2018). To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

Repayments included in finance leases are applied as MRP. It should also be noted that the Council will not make any separate MRP in regards of the loans to Optivo (previously Amicus Horizon) in respect of the Coastal Space scheme. Optivo will meet the costs of the Council PWLB loan (Principal and Interest) and the Council makes the payments to the PWLB. Likewise for any loan to the Foreshore Trust - as the interest and principal repayments to be made by the Council will be funded in full from the sums payable by the Trust no separate MRP will be made by the Council.

The Council is seeking to generate additional income from capital Investments. The Council will look to make a prudent provision for the repayment of debt over the expected life of the asset. In doing so, where an annuity loan is taken or may be taken at some stage in the future to finance the purchase the MRP made will reflect as far as possible the principal element of the actual loan repayments (rather than accruals). The interest rate to be calculated at the outset being determined by the Chief Finance Officer.

APPENDIX 2 Interest Rate Forecasts

The data below shows Sectors forecast

Link Asset Services Interest rate forecast – Dec 2018 – March 2021

Bank Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	-
5yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	1.76%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
Capital Economics	1.76%	1.95%	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-
10yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.18%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%
Capital Economics	2.18%	2.30%	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-
25yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	2.83%	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-
50yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.68%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.68%	2.65%	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-

Link Asset Services Interest Rate View												
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%
3 Month LIBID	0.68%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%
6 Month LIBID	0.78%	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%
12 Month LIBID	0.95%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%

APPENDIX 3 Economic Review (Link Asset Services)

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

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

KEY RISKS - central bank monetary policy measures

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

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a

figure for this of around 2.5% in ten years' time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in September, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.2%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.8%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US,

(China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

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

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

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

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

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

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

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments**. Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove

fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.

- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

APPENDIX 4 Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2017/18*	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	£75,000	£85,000	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£80,000	£90,000	£100,000	£100,000	£100,000
Operational Boundary for external debt -					
borrowing	£65,000	£75,000	£85,000	£85,000	£85,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£70,000	£80,000	£90,000	£90,000	£90,000

2017/18* - proposed revision to authorised boundary from £70m to £80m. Operational boundary unaltered.

Interest Rate Exposures	2018/19	2019/20	2020/21
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%
Maturity Structure of fixed interest rate borrowing 2018/19			
		lower	Upper
Under 12 Months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
Maturity Structure of variable interest rate borrowing 2018/19			
		lower	Upper
Under 12 Months		0%	30%
12 months to 2 years		0%	30%
2 years to 5 years		0%	30%
5 years to 10 years		0%	30%
10 years to 20 years		0%	10%
20 years to 30 years		0%	10%
30 years to 40 years		0%	10%
40 years to 50 years		0%	10%

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2017/18 Actual	2018/19 Rev.Est	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	925	1,366	1,983	2,296	2,394
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-19		0	0	0
4. Interest and Investment Income	-305	-366	-553	-834	-1,062
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. MRP, VRP	717	795	1,184	1,628	1,775
6. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	1,318	1,795	2,614	3,090	3,107
Net Revenue Stream					
Amount to be met from government grants and local taxpayers	13,373	13,034	13,034	13,389	13,673
Ratio					
Financing Cost to Net Revenue Stream	10%	14%	20%	23%	23%

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has an income generation strategy that has identified an additional £50m of Capital expenditure over the period 2017/18 to 2020/21. The above ratio does not take into account the income that will be generated from the energy initiatives and commercial property acquisitions.

Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy. Additional prudential indicators will be developed as the forward capital plans of the authority are developed.

APPENDIX 5 Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of up to a maximum of one year.

Schedule A

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money market funds (CNAV, LVAV, VNAV)	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months

Non-Specified Investments

These are any investments which do not meet the specified investment criteria. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a “high” credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise, or fall, rather than deficient credit rating.

There is no intention to invest in Non-Specified Investments, other than those Property Funds where there are no Capital accounting implications, without taking specialist advice first. The limits on Investments in Property Funds will be agreed as part of this Treasury Management Strategy and Investment Policy. For clarity any increase in the level of the investment would need Council approval.

Schedule B

Investment	Security / Minimum credit rating (A) Why use it? (B) Associated risks
Property Funds	<i>The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will check on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.</i>
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	<p>Government backed</p> <p>(A) (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk.</p> <p>(B) (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.</p>

APPENDIX 6 Approved Countries for Investments

The list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating shown from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Countries that meet our criteria 1, 2, 3, 4 (at 29.12.2018)

1. AAA
 - Australia
 - Canada
 - Denmark
 - Germany
 - Netherlands
 - Singapore
 - Sweden
 - Switzerland
 - U.S.A.

2. AA+
 - Finland

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

4. AA-
 - Belgium
 - Qatar

Examples of Countries that do not meet our criteria:

Japan
Kuwait
Greece
Spain

APPENDIX 7 Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as:

“The management of the organisation’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”.

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

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

APPENDIX 8 Key Principles and Clauses formally adopted

The Code identifies three key principles:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

Key Principle 2

Their policies and practices should make clear that the effective management and control of risk are the prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Clauses formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMP's will follow the recommendations contained in Sections 6 and 8 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Codes key principles.

2. This organisation (i.e. full board/council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid- year review and an annual report after its close, in the form prescribed in its TMPs.

3. This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to the Chief Financial Officer, who will act in accordance with the organisations policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
 4. This Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
-

APPENDIX 9 Treasury Management Scheme of Delegation

(i) Full Council

1. Approval of the Treasury Management Strategy - prior to the new financial year
2. Approval of the Investment Strategy - prior to the new financial year
3. Approval of the MRP Policy - prior to the start of the new financial year
4. Approval of any amendments required to the Strategy during the year
5. Receipt of a Midyear report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year.
2. Receipt of a midyear report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.
3. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).
4. Approval of/amendments to the organisation's adopted clauses, treasury management policy statement;
5. budget consideration and approval;
6. approval of the division of responsibilities;

(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and Treasury Management Practices and making recommendations to Cabinet and Council as appropriate.
 2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.
-

APPENDIX 10 The Treasury Management Role of the Section 151 Officer

Chief Finance Officer (S151 Officer) responsibilities

- recommending clauses, treasury management policy for approval, determining Treasury Management Practices, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Additional Responsibilities following new Codes of Practice/ Investment Guidance

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both the Prudential and the Treasury Management Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Namely:-

1. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities. Please also note that CIPFA provided advice that it recognised that it would be too late for many local authorities to produce a capital strategy in readiness for 2018/19).
 2. ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
 3. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
 4. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
 5. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
 6. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.
-

7. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees .
 8. ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
 9. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
 10. Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following): -
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
 - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
 - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.
-

Appendix 11 – CCLA – Diversified Income Fund

1. Performance

CCLA AUTHORISED CONTRACTUAL SCHEME Prices & Dividend Yields

CCLA

End of	Nov-18	Oct-18	Sep-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18	Mar-18	Feb-18	Jan-18	Dec-17	
Diversified Income Fund													
Class 1	Fund Size £m	129.69	129.76	128.76	107.89	98.58	89.04	89.07	83.30	76.90	76.40	75.00	73.83
	Price £	1.5449	1.5457	1.5641	1.5779	1.5579	1.5489	1.5495	1.5349	1.5087	1.5378	1.5451	1.5620
	Dividend on XD Date £			0.0120			0.0140			0.0120			0.0101
	Dividend - Last 12 Months £	0.0481	0.0481	0.0481	0.0482	0.0482	0.0482	0.0474	0.0474	0.0474	0.0513	0.0513	0.0513
	Dividend Yield on Price %	3.12	3.11	3.08	3.06	3.10	3.11	3.06	3.09	3.14	3.33	3.32	3.28
Class 2	Price £	1.4882	1.4890	1.5067	1.5205	1.5014	1.4926	1.4931	1.4794	1.4541	1.4823	1.4894	1.5057
	Dividend on XD Date £			0.0117			0.0134			0.0116			0.0098
	Dividend - Last 12 Months £	0.0465	0.0465	0.0465	0.0465	0.0465	0.0465	0.0458	0.0458	0.0458	0.0356	0.0356	0.0356
	Dividend Yield on Price %	3.13	3.12	3.09	3.06	3.10	3.12	3.07	3.10	3.15	3.11	3.09	3.06
Class 3	Price £	1.4966	1.4975	1.5152	1.5287	1.5095	1.5006	1.5010	1.4870	1.4616	1.4897	1.4969	1.5133
	Dividend on XD Date £			0.0117			0.0133			0.0114			0.0017
	Dividend - Last 12 Months £	0.0380	0.0380	0.0380	0.0264	0.0264	0.0264	0.0130	0.0130	0.0130	0.0017	0.0017	0.0017
	Dividend Yield on Price %*	3.06	3.06	3.02	2.98	3.02	3.04	2.64	2.67	2.71	**	**	**

Class 1 launch date: 02 December 2016

Class 2 launch date: 24 March 2017

Class 3 launch date: 01 December 2017

*Dividend Yield on Price % has been annualised.

**Dividend Yield on Price % will be calculated from 31 March 2018.

The units of the ACS and the income from them can fall as well as rise and an investor may not get back the amount originally invested. Past performance is no guarantee of future returns. The units are intended only for long-term investment and are not suitable for money liable to be spent in the near future. Units are realisable daily.

Source: CCLA

2. Background from Link Asset Services (HBC's Treasury Advisors)

- The fund was set up at the back of 2016 and would only be suitable for long-term investment purposes. The fund is an Advanced Collective Scheme, which we think meets UCITs standards, so would be deemed revenue in structure.
- Its primary objective is to return circa 3% through a diversified portfolio of assets. There is capital growth potential but it is not the fund's key focus.

They noted the following in June 2018

- Fixed Interest & Cash
 - Cash is via their own MMF
 - FI only in sterling
 - Average credit rating of A so the fund will have exposure to "BBB" securities
 - The manager currently has a cautious view on bonds...too expensive
- Alternatives
 - Identifying a wider universe of opportunities
 - These may include student accommodation (long lease), aircraft leases (long lease), solar and wind farms (long lease), private equity funds, care homes / doctors' surgeries (long lease), property funds (but not CCLA one)
 - Typical yields on these will be 6-8%

- (iii) Equities
 - a. Focus on quality, not higher yielding options
 - b. For UK – focus on large companies with an international footprint
 - c. Currently, largest exposure is to US equities
 - d. Could hedge currency exposure, but would use forward transactions, not more complex derivatives
 - e. All subject to ERI (Ethical Reputation Index) standards
 - (iv) While this is a new fund, they have managed similar for other clients (mainly charities and churches) for some time.
 - (v) Income paid out quarterly at end of Feb, May, Aug, Nov
5. Any investor should check on the individual underlying equity holdings (potentially significant volatility) to see exactly what kind of exposures they are looking to include, particularly as cumulatively around 50% of the fund is in rather volatile assets, being equity and property based.
 6. The other 50% of the fund is in income based products which are subject to interest rate risk. Previously, we have assumed that typical c10% cash holding provides for scope to take advantage of any new opportunities they spot.
 7. The Key Investor information that CCLA has on the website provides some further points. No stand-alone derivatives, although they will manage FX exposure with efficient techniques. There will be no borrowing.
 8. The minimum investment is £1m and the annual management charges are a net 60bps, consistent with other property fund management charges. The dilution levy charge is, however, much lower than property fund charges, which can be 5% on exit and entry (0-1.5% estimated in this case).
 9. T+2 settlement provides reasonable liquidity and is similar to an ultra-short dated bond fund.
 10. The fund is at present around £100m in size. The characteristics of these types of fund is strong diversification and a strong risk/return relationship.
 11. The dividend yield typically of 3-3.5% would be similar to investment grade/ slightly lower than FTSE All-Share returns. The returns overall may be quite similar to a property fund, but its returns would be more capital based than property, which tends to give c4-5% from the funds we look at. They are committed to rising dividends on a nominal basis.
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Diversified Income Fund Unit Class 2 - For local authorities and public sector organisations

Fact Sheet – 30 June 2018

Investment objective

To provide a balanced return from income and capital growth over time from a portfolio structured to control relative risk.

Investment policy

The portfolio will be actively managed and may invest in a wide range of potential assets. The control of relative risk will be an important influence on structure and strategy.

Suitability

The Fund is suitable for long term investors seeking a balanced return of income and capital growth for whom control of relative risk is important.

Who can invest?

Any local authority and public sector investor in England, Wales, Scotland and Northern Ireland. Investors should note that there is a minimum investment in the Fund of £1million.

Responsible investment policy

Information about the ethical and responsible policies to be followed by the Diversified Income Fund is available from the Investment Manager's website www.ccla.co.uk.

Income

The Fund distributes income on a quarterly basis. As at 30 June 2018 the dividend yield on price was 3.12%. This is based on the last 12 months' dividend of 4.65p.

Fund update

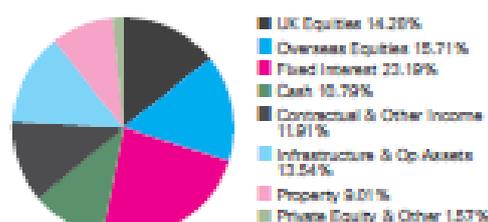
The Fund has an actively managed, balanced portfolio diversified across a wide base of good-quality assets.

The domestic bond weighting is below that of the benchmark and there is a defensive bias to the securities held, reflected in a maturity profile which is significantly shorter than that on the benchmark. The equity holdings have a bias towards international exposure, both in terms of direct overseas investments and UK companies with a strong global presence. The focus is on robust finances and growth potential, independent of broad economic trends. The result is a relatively high weighting to sectors such as IT and a modest exposure to traditional income sectors such as energy and utilities. The Fund has a high allocation to non-traditional asset classes including infrastructure, alternative energy and contractual income sources such as leasing. Investments such as these make an important contribution to the Fund's income and help control risk by improving diversification.

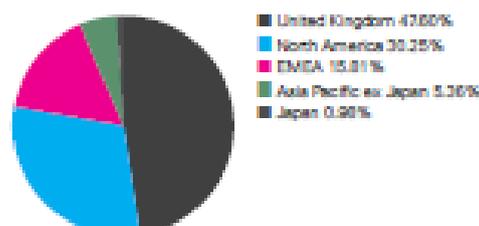
Recent activity has included increasing the property

weighting and introducing an exposure to short-dated US government bonds. In the current environment, these are seen as an attractive alternative to cash.

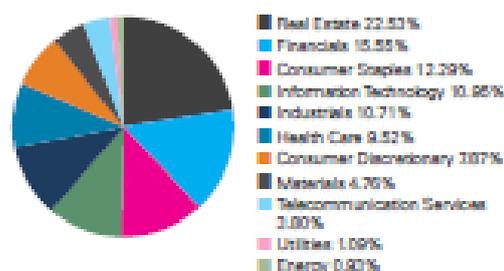
Asset allocation at 30 June 2018



Equity portfolio geographical breakdown at 30 June 2018



Equity portfolio sector breakdown at 30 June 2018



Discrete year total return performance (gross)

12 months to 30 June	2018
Diversified Income Fund - Unit Class 2	+2.24%
Comparator	+4.13%

Comparator – composite: from 24.03.17 MSCI UK (M) 20%, MSCI North America 6.67%, MSCI Europe ex UK 6.67%, MSCI Pacific 6.67%, MSCI EBoxx £ Giltx 30% & MSCI EBoxx £ Non-Giltx 30%. Source: CCLA. Past performance is not a reliable indicator of future results.

Most overweight companies relative to equity indices at 30 June 2018

F&C UK Real Estate	5.76%	Accenture	1.61%
Hic Trust and Hic Ltd	2.11%	Infoma	1.57%
Relx	1.64%	Prologis	1.56%
Pfizer	1.62%	Taiwan Semiconductor	1.49%
Microsoft	1.62%	Medtronic	1.45%

Key facts

Fund size	£89m
Number of holdings	170
Price	£1.49
Fund launch date	2 December 2016
Unit Class 2 launch date	24 March 2017
Minimum initial investment	£1m
Minimum subsequent investment	£25,000
Dealing	Daily*
Sedol number	BDS6802
ISIN number	GB00BD568024
Dividend payment dates	End February, May, August & November
Annual management charge (taken 100% from capital)	0.60%

*The Dealing Deadline is normally 12 noon London time on a Dealing Day. The Valuation Point is normally 3pm on a Dealing Day.