Dacorum Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2018/19

Index

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A primary function of the Treasury Management service is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially, before considering investment return.

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

1.2 Clauses to be formally adopted

1. Dacorum Borough Council will create and maintain the following 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

2. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. Responsibility is delegated to the Section 151 Officer for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions. They will act in accordance with the policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the treasury management strategy, policies and monitoring before recommendation to Full Council.

1.3 Treasury Management Policy Statement

The Council defines its treasury management activities as:

> *The management of the organisation's borrowing, investments, cash flows, 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.*

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the 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 the Council's 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.

1.4 Reporting requirements

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

Treasury Management Strategy Statement (this report) - The first, and most important report, covers:

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that elected Members fully understand the overall strategy, governance procedures and risk appetite entailed by this strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.5 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues:

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

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.

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

1.6 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of treasury management officers are periodically reviewed.

1.7 Treasury management consultants

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

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

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

2 The Capital Prudential Indicators 2018/19 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

The first prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2016/17 Actual £m	2017/18 Forecast £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Non-HRA	19.529	12.142	21.719	13.432	2.849
HRA	19.236	26.314	36.483	35.863	25.670
Total	**38.765**	**38.456**	**58.202**	**49.295**	**28.519**
Financed by:					
Capital grants & S106	4.316	1.995	2.648	0.975	0.975
Capital receipts & reserves	26.283	22.846	40.046	41.586	21.332
Revenue contribution to Capital	6.132	8.847	9.140	6.734	6.212
Borrowing	2.034	4.768	6.368	0.000	0.000
Net financing need for the year	**38.765**	**38.456**	**58.202**	**49.295**	**28.519**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total 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 above, which is not immediately paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.188m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Financing Requirement					
CFR – non housing	8.065	12.277	18.281	17.925	17.576
CFR – housing	346.740	346.172	344.104	340.519	335.927
Total CFR	354.804	358.449	362.385	358.444	353.503
Movement in CFR		**3.644**	**3.936**	**(3.941)**	**(4.941)**

Movement in CFR is represented by					
Net financing need for the year		3.644	3.936	(3.941)	(4.941)
Use of set aside capital receipts		0.00	0.000	0.000	0.000
Movement in CFR		**3.644**	**3.936**	**(3.941)**	**(4.941)**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

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

The MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations;

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision.

2.4 Core funds and expected investment balances

The use of funds to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances and anticipated day to day cash flow balances.

Year End Resources	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Fund balances / reserves	33.266	32.003	29.038	20.109	24.628
Capital receipts	17.182	37.215	30.977	20.559	25.858
Provisions	4.449	4.500	4.500	4.500	4.500
Other	0.000	0.000	0.000	0.000	0.000
Total core funds	**54.897**	**73.718**	**64.515**	**45.168**	**54.986**
Working capital		5.000	5.000	5.000	5.000
(Under)/over borrowing		6.368	0.000	0.000	0.000
Expected investments		**85.086**	**69.515**	**50.168**	**59.986**

2.5 Affordability prudential indicators

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

2.6 Ratio of financing costs to net revenue stream

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

	2016/17 Actual	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Non-HRA	0.79%	1.12%	1.23%	1.20%	1.17%
HRA	20.08%	20.34%	20.14%	20.36%	19.80%

2.7 HRA ratios

	2016/17 Actual	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
HRA debt £m	346.739	346.172	344.104	340.518	335.928
HRA revenues £m	57.148	56.319	55.563	55.265	56.960
Ratio of debt to revenues %	607%	615%	619%	616%	590%
Number of HRA dwellings	10,124	10,069	10,014	9,959	9,909
Debt per dwelling £	34.249	34.380	34.362	34.192	33.901

3 Borrowing

The capital expenditure plans set out in Section 2 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 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 approporiate borrowing facilities.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any over or under borrowing.

	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
External Debt					
Debt at 1 April	366.519	365.754	364.816	362.383	358.441
Expected change in Debt	(0.765)	(0.938)	(2.432)	(3.942)	(4.939)
Other long-term liabilities	0.188	0.188	0.188	0.188	0.188
Actual gross debt at 31 March	**365.942**	**365.004**	**362.572**	**358.630**	**353.690**
The Capital Financing Requirement	354.805	358.449	362.385	358.444	353.503
Under / (over) borrowing*	**(11.137)**	**(6.555)**	**(0.187)**	**(0.186)**	**(0.187)**

There are a number of key indicators to ensure that the Council operates its activities within well-defined limits.

One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the 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 purposes. The Council complies with this indicator.

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

Operational boundary	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt	364.816	362.383	358.441	353.502
Other long term liabilities	0.188	0.188	0.188	0.188
Total	365.004	362.571	358.629	353.690

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

Authorised limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt	378.000	378.000	375.000	373.000
Other long term liabilities	1.000	1.000	1.000	1.000
Total	379.000	379.000	376.000	374.000

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently £354.015m.

Treasury management limits on activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2018/19	2019/20	2020/21
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed 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**	5%	5%	5%
• **Investments only**	40%	40%	40%
Maturity structure of fixed interest rate borrowing 2018/19			
		Lower	**Upper**
Under 12 months		0%	1%
12 months to 2 years		0%	1%
2 years to 5 years		0%	3%
5 years to 10 years		2%	5%
10 years and above		5%	90%
Maturity structure of variable interest rate borrowing 2018/19			
		Lower	Upper
Under 12 months		0%	1%
12 months to 2 years		0%	2%
2 years to 5 years		0%	2%
5 years to 10 years		0%	0%
10 years and above		0%	0%

3.3 Borrowing strategy

The Council is currently in a over-borrowed position as described in 3.1. This means that the CFR, has been over funded with loan debt. This was to secure preferential self-financing borrowing rates and maintain General Fund capital balances.

The Corporate Director (Finance & Operations) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, specifically in relation to refinancing, delaying capital expenditure and taking on new borrowings.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.4 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that the Council would not look to borrow more than 36 months in advance of need. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Prospects for Interest Rates

The Councils Treasury Advisors provided the following as their view for interest rates.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2nd November. This removed the emergency cut in August 2016 after the EU referendum.

The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year.

  The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling and early repayment of debt will be reported to Cabinet, at the earliest meeting following its action.

4 Annual Investment Strategy

4.1 Investment policy

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, liquidity second and then return.

The strategy generates a list of highly creditworthy counterparties which will also enable diversification and the avoidance of concentration risk.

In order to minimise the risk to investments, the Council clearly stipulates 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 the three main ratings agencies (Fitch, Moody's and Standard and Poor's) with a full understanding of what these reflect in the eyes of each agency. These are monitored on a real time basis with knowledge of any changes notified electronically to Dacorum as the agencies notify modifications.

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.

Officers 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 Council will engage with its advisors to monitor market pricing such as "credit default swaps" (CDS) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Link Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

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.

Investment instruments identified for use in the financial year are listed in appendix 2 under the 'specified' and 'non-specified' investments categories.

4.2 Creditworthiness policy

Dacorum uses the creditworthiness service provided by Link Asset Services. This service employs a modelling approach using credit ratings from the three main credit rating agencies.

The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This approach produces a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (Nationalised or semi nationalised UK Banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, new investments will not be placed with the counterparty.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

4.3 Country limits

The Section 151 Officer will determine approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent) as appropriate, with durations following the same colour coded criteria, details of which are set out in 4.2. Officers will remove counterparties from this list should ratings change in accordance with this policy, and counterparties will only be added with approval from the Section 151 Officer.

4.4 Investment strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations: Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

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

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

Maximum principal sums invested > 364 & 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 & 365 days	20% of portfolio	20% of portfolio	20% of portfolio

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

These benchmarks are simple guides to minimise risk; so they may be breached from time to time, depending on movements in interest rates and counterparty criteria.

The purpose of the benchmark is that officers will monitor the position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Cabinet, with supporting reasons in the mid-year and annual report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables is 0.014%.

Liquidity – in respect of this area the Council seeks to maintain:

- Maximum bank overdraft - £0.25m
- Liquid deposits of at least £5m available with a week's notice.
- Weighted average life benchmark is expected to be around 100 days

Yield - local measures of yield benchmarks for investments is to achieve internal returns above the 7 day LIBID rate.

4.6 External fund managers

The Council does not currently use fund managers. If deemed appropriate to use fund managers in the future, the decision will be passed through Cabinet for recommendation to Full Council.

4.7 Non- Treasury Investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non- treasury management purposes, requires careful investment management. Such activity may include loans to support service outcomes, investment in subsidiaries and investment property portfolios.

This type of activity is covered by the Council's normal approvals processes for revenue and capital expenditure.

The Council holds a portfolio of investment properties. These are managed as part of the Council's asset management strategy.

The Council will maintain a schedule setting out a summary of existing material investments and liabilities, investment management practices in relation to these and the organisation's risk exposure.

Appendix 1: Economic Background (provided by Link Asset Services)

UK

After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.)

At Its 2nd November meeting, the MPC delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the contradiction within the Bank of England between action in 2016 and in 2017 by two of its committees. After the shock result of the EU referendum, the Monetary Policy Committee (MPC) voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth.

Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was because the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake.

Then in 2017, we had the Financial Policy Committee (FPC) of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit. Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Appendix 2: Credit and Counterparty Risk Management

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – UK Government (including other local authorities)	--	In-house
Term deposits – banks and building societies –Banks carrying a credit rating and the Cooperative Bank	See 4.2	In-house
UK Government Gilts	UK sovereign rating	In-house and Fund Managers
Money Market Funds	AAA	In-house and Fund Managers
Cash Fund Management	See 4.2	In-house and Fund Managers
UK Government Treasury bills	UK sovereign rating	In-house and Fund Managers

Term deposits with nationalised banks and banks and building societies

	*** Minimum Credit Criteria**	**Use**	***** Max % of total investments**	**Max. maturity period**
UK part nationalised banks	See Link's Creditworthy list	In-house	**12.5M per institution**	**12 months**

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of the lower of 30%of the portfolio, or £20m will be held in aggregate in non-specified investment

	*** Minimum Credit Criteria**	**Use**	**Max. maturity period**
Term deposits – UK Government and Other	--	In-house	5 years

Local Authorities			
Term deposits – banks and building societies	See 4.2	In-house	5 years
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house	5 years
Certificates of deposit issued by banks and building societies	See 4.2	In-house	5 years
Fixed term deposits with variable rate and variable maturities -Callable deposits -Callable range trade accounts	See 4.2	In-house and Fund Managers	5 years
Short term funds	See 4.2	In-house and Fund Managers	5 years
Cash Fund Management	See 4.2	In-house and Fund Managers	5 years
Gilt Funds, Bond Funds and Government Liquidity Funds	See 4.2	In-house and Fund Managers	5 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	10 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	10 years
Corporate Bonds	See 4.2	In-house and Fund Managers	10 years

Appendix 3: Treasury management roles and scheme of delegation

Full Council

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

Cabinet

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

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- approving the selection of external service providers and agreeing terms of appointment.
- approving the use of non-UK counterparties as appropriate
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management.
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- publication of a schedule that sets out the Council's investment management practices for non- treasury activity.