Neath Port Talbot County Borough Council

CABINET

Report of the Director of Finance and Corporate Services

13th February 2019

SECTION A – MATTERS FOR DECISION

WARDS AFFECTED: ALL

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, CAPITAL STRATEGY AND MINIMUM REVENUE PROVISION POLICY

1. Purpose of Report

1.1 This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019/20. A report on the Council's Capital Strategy is also required and this is included within this report.

1.2 Treasury Management is defined as:

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

2. Introduction

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties providing adequate liquidity initially before considering investment return

2.2 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. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

3. Reporting Requirements

3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals details of which are outlined below.

3.2 Prudential and Treasury Indicators and Treasury Strategy (this report)

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

3.3 A Mid Year Treasury Management Report (prepared after 1st October)

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.

3.4 An Annual Treasury Report

This provides details of the actual performance for the previous financial year and provides a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report must be considered by Members by 30th September of the following financial year.

3.5 Scrutiny Arrangements

The above reports are required to be scrutinised before being recommended to Council. These arrangements are detailed in the scheme of delegation as set out in Appendix 1 of this report.

4. **Capital Strategy**

4.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy 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 that report will be to ensure that Members understand the overall strategy, governance procedures and risk appetite entailed by capital investment and spend. The Capital Strategy is detailed in section 19 of this report.

5. Treasury Management Strategy for 2019/20

5.1 The strategy for 2019/20 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
- the policy on use of external service providers.

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

6. **Capital Prudential Indicators**

6.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The table below summarises these plans and how they are being financed:

	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000	2021/22 Original Estimate £'000
Capital expenditure	68,963	44,821	44,816	29,444	13,917
Resourced by:					
Capital receipts	0	1,069	4,800	1,300	1,300
Grants & contributions	30,345	17,607	23,199	16,998	6,554
Reserves + DRF *	605	4,657	1,344	225	0
Borrowing	38,013	21,488	15,473	10,921	6,063

NB * DRF means Direct Revenue Financing

6.2 The Capital Financing Requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness. The table below shows the projected CFR movements:

CFR	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000	2021/22 Original Estimate £'000
Opening Balance	292,824	325,241	337,698	343,091	343,819
Add: Expenditure funded by borrowing	38,013	21,488	15,473	10,921	6,063
Less: Minimum Revenue Provision (MRP)	(8,433)	(9,031)	(10,080)	(10,193)	(10,180)
Adjustment re Finance Lease	2,837				
Closing Balance	325,241	337,698	343,091	343,819	339,702

7. Treasury Management Prudential Indicators

7.1 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 service activity and the Council's capital strategy.

This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7.2 The Council's treasury portfolio position at 31st March 2018 comprised:

Table 1	Principal		
Borrowing		**£m**	**£m**
Fixed rate funding	PWLB	203,155	
	Market	62,500	
	Other	1,500	
		267,155	
Variable rate funding		0	
		267,155	
Other long term liabilities			0
Gross Debt			**267,155**
Total investments			**61,000**

7.3 Within the prudential indicators 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 Capital Financing Requirement.

The Council has complied with this prudential indicator in the current year and there is no indication that it will not do so in future as detailed below:

	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000	2021/22 Original Estimate £'000
Actual gross debt at 31st March	267,155	280,271	281,304	282,098	286,097
Capital Financing Requirement (CFR)	325,241	337,698	343,091	343,819	339,702
Under / (over) borrowed	58,086	57,427	61,787	61,721	53,605

7.4 Treasury Indicators: Limits relating to borrowing

7.4.1 The Operational Boundary

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

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Operational Boundary	355,241	362,713	360,994	356,494

7.4.2 The Authorised Limit

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

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Authorised Limit	375,241	382,713	380,994	376,494

7.4.3 Upper limits on fixed and variable interest rate exposure

This identifies a maximum limit for fixed and variable interest rates based upon the total debt position

	2018/19 to 2021/22 £'000
Upper Limit on Fixed Interest Rate Exposure Lower Limit on Fixed Interest Rate Exposure Upper Limit on Variable Interest Rate Exposure Lower Limit on Variable Interest rate Exposure	380,994 190,497

7.4.4 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

Maturity Structure of Fixed Rate Borrowing	2019/20 Estimate %	Upper Limit %	Lower Limit %
Under 12 months	2	15	0
12 months to 2 years	4	15	0
2 to 5 years	6	40	0
5 to 10 years	1	60	0
10 years +	87	100	15

8. Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's projected view.

	Mar19	Jun19	Sep19	Dec19	Mar20	Jun20	Sep20
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5 yr PWLB	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%
10 yr PWLB	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%
25 yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%
50 yr PWLB	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%

9. Borrowing Strategy

9.1 The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2019/20.

9.2 The following types of loan arrangement will be considered (in no particular order):

- Temporary borrowing from the money markets or other local authorities.
- Short dated borrowing from the market or PWLB.
- Long term fixed rate market or PWLB loans.

The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns.

The Council will continue to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Members should note that to date during 2018/19 the Council has taken new borrowing of £19.7m from the PWLB taking advantage of historically low interest rates. It should also be noted that during the year the Council repaid £5.1m of principal repayments to the PWLB.

9.3 Going forward it is not anticipated that the Council can meet its borrowing requirement from internal balances. It is proposed that Council Officers monitor the cost of external borrowing and if considered necessary externalise the 2019/20 borrowing requirement during the financial year if considered advantageous to do so.

10. Policy on Borrowing in Advance of Need

10.1 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.

11. Debt Rescheduling

11.1 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).

11.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.3 Consideration will also be given to identify if there is any 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.

11.4 No rescheduling is anticipated in 2019/20. If rescheduling does take place it will be reported to the Cabinet Board, at the earliest meeting following its action.

12. Annual Investment Strategy

12.1 The Council's investment policy has regard to the Welsh Government'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, then return.

12.2 In accordance with the above, 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. Using Link's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

12.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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.

12.4 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.

12.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

12.6 The intention of the strategy is to provide security of investment and minimisation of risk.

12.7 Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

13. Creditworthiness Policy

13.1 The Council receives creditworthiness information from Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

13.2 All credit ratings are monitored on a daily basis**.** The Council is alerted to changes to ratings of money market organisations as announced by all three agencies through its use of the Link's creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

13.3 Council Officers are able to use this creditworthiness information to help support their decision making processes along with other market information and data available.

13.4 The approved investment criteria are detailed in Appendix 2 of this report and have not changed from those previously approved by Members.

14. Country Limits

14.1 The Council will only invest in Banks in countries where the sovereignty rating is AA+ or higher, with the exception of the UK which has an AA rating. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 2. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

15. Investment Strategy

15.1 **In-house funds***:* The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £25m. The remaining cash balances are mainly cash flow derived and available for short term investment only.

15.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

15.3 **Investment returns expectations.**

The Council's Treasury advisors have informed us that Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Bank Base Rate is forecast rise to 1.00% in quarter 1 of 2019, then rise to 1.25% by quarter 4 of 2021. The 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%

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

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%

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.

15.4. Investments greater then 365 days

The Council is required to set a limit on the total value of investments with a duration greater than 365 days. This limit is set with regard to the Council's liquidity requirements. The proposed limit is set out below:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Limit on investments over 365 days	£25m	£25m	£25m	£25m

Members should note that the updated Treasury Management Code of Practice now requires Local Authorities to report on investments over 365 days as opposed to the previous practice of over 364 days.

16 End of Year Investment Report

16.1 Members will receive a report on the actual 2018/19 investment activity as part of the Annual Treasury Report by 30th September 2019.

17. Policy on the Use of External Service Providers

17.1 The Council uses Link Asset Services as its external treasury management advisers. The Council's previous contract was with Capita Asset Services but this business was purchased by Link Asset Services during 2017/18.

17.2 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.

17.3 However it is recognised that responsibility for treasury management decisions remains with the Council.

18. Role of the Section 151 Officer

18.1 The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- to recommend 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
- recommend the appointment of external service providers.

19. Capital Strategy

19.1 Purpose of the Capital Strategy

The Capital Strategy is intended to provide 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 and the implications for future financial sustainability.

19.2 Capital Programme Planning Process

The Capital Programme is a key component in assisting the Council to deliver its three well-being objectives:

- To improve the well-being of children and young people.
- To improve the well-being of all adults who live in the county borough
- To develop the local economy and environment so that the well-being of people can be improved

In order to assist in delivering these objectives the Programme prioritises a number of key areas:

- Maintenance of existing capital assets. This work is prioritised using the various Asset and Risk Management Plans in place

- Regeneration of the County Borough. Great emphasis is placed on this area and the subsequent benefits investment brings in relation to the economy and jobs. The Capital Programme allocation is used as a means of leveraging in external funding in the form of grants and private sector investment to ensure maximum benefits to the citizens of the County Borough

- Disabled Facilities Grants. These are seen as a key driver in ensuring that people can remain living in their own homes for as long as possible.

- Transformation Initiatives. Transformation of services such as the 21st Century Schools Programme are delivered via prioritised capital investment.

The Council does not enter incur capital expenditure for purely commercial reasons i.e. with the sole intention of making a profit.

19.3 Governance Arrangements

Delivery of the Capital Programme is overseen by the Council's Capital Programme Steering Group (CPSG) under the chair of the Assistant Chief Executive and Chief Digital Officer. The groups consists of a number of Heads of Service and other Council officers and meets regularly to consider progress along with any emerging pressures.

An updated version of the Capital Programme is formally approved by Cabinet and Council on a quarterly basis as part of the Council's budget monitoring and scrutiny arrangements.

19.4 Future Financial Sustainability

The revenue implications of Capital Spending plans are incorporated into the Council's Forward Financial Planning process. The cost of borrowing (principal and interest) to finance spending plans are calculated using prudent assumptions around interest rates to ensure they are affordable. Any revenue implications for Service's as a result of capital investment decisions are built into the Medium Term Financial Planning process as budget 'pressures'.

20. Minimum Revenue Provision

20.1 Introduction

20.1.1 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.

20.1.2 The council is required to approve its MRP policy for the forthcoming financial year ensuring that "prudent provision" is made.

21. Minimum Revenue Provision Policy Statement 2019/20

21.1 The Council's MRP policy for 2019/20 is detailed below:

MRP Policy – Supported Borrowing

21.2 The Council is required to make arrangements for the repayment of debt which it considers to be a 'prudent provision for the repayment of debt'. In relation to capital expenditure funded by supported borrowing the MRP policy will be to write down the debt over a 50 year period on a straight line basis, this is broadly consistent with the lives of assets funded and maintained by supported borrowing.

MRP Policy – Prudential Borrowing

21.3 Expenditure will be subject to MRP on the basis of asset life and using the equal annual instalment or annuity methods as appropriate.

21.4 Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software 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.

21.5 Where 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, as determined by the Director of Finance.

21.6 Where the Council provides capital funding to a third party the MRP charge will be calculated as if the Council incurred the capital expenditure itself i.e. over the expected life of the asset.

21.7 The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

22. Affordability Prudential Indicators

22.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework a prudential indicator is required to assess the affordability of the capital investment plans. This indicator shows the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

	2018/19 Revised Estimate	2019/20 Original Estimate	2020/21 Original Estimate	2021/22 Original Estimate
Financing Cost / Net Revenue	6.91%	7.13%	6.73%	6.57%

23. Capital Financing Budget

23.1 Included at Appendix 3 of this report is a breakdown of the capital financing budget which totals £19.274m for 2019/20.

24. Financial Impact

All financial impacts are detailed within the body of the report.

25. Integrated Impact Assessment

There is no requirement for an equality impact assessment for this report.

26. Workforce impacts

There are no workforce impacts resulting from this report.

27. Legal impacts

The report deals with the Council's legal requirements as set out in Local Government Act 2003.

28. Risk management

Compliance with the strategies outlined in this report should be sufficient in terms of managing risks in this area.

29. Recommendation

It is recommended that Cabinet commend to Council the approval of the following Strategies and Policies as set out in this report:

- Treasury Management Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy
- Prudential Indicators
- Capital Strategy

30. Reasons for proposed decision

To approve the Authority's Treasury Management Strategy, Annual Investment Strategy, Capital Strategy and MRP Policy as required by the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance in Local Authorities (2017).

31. Implementation of decision

The decision is proposed for implementation immediately after consultation with the Cabinet Scrutiny Committee and determination by Council.

32. Appendices

Appendix 1 – Scheme of Delegation
Appendix 2 - Investment Criteria
Appendix 3 – Capital Financing Budget

33. List of Background Papers

CIPFA – Treasury Management in the Public Sector Code of Practice
CIPFA – Prudential Code for Capital Finance in Local Authorities (2017)
Treasury Management Working Papers

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Appendix 1

Scheme of Delegation

Area of Responsibility	Council/ Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Cabinet	Annually by 30th September after the end of the year
Treasury Management Monitoring and Performance Reports	Cabinet and Cabinet Scrutiny Committee and Audit Committee	Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Amendments to be reported annually
Scrutiny of Treasury Management Strategy	Cabinet and Cabinet Scrutiny Committee and Audit Committee	Annually

Specified Investments

	Minimum 'High' Credit Criteria	Funds Managed	Max Amount	Max Duration
Term deposits				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months or 185 days
Callable deposits				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months or 185 days

* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.

2. Supranational Bonds of less than 1 year duration – there are two categories:

   (a) multilateral development bank bonds such as European Investment Bank Bonds
   (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.

3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

   Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

Non-Specified Investments:

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

Maturities in excess of 1 year

	Minimum Credit Criteria	**Funds Managed**	**Max. Investment**	**Max. Maturity Period**
Fixed term deposits with fixed rate and fixed maturity				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
Fixed term deposits with variable rate and variable maturities				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

Approved Countries for Investments

At present the Council has the ability to invest in the countries as set out below; the Council will take account of all information if making investments in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher, with the exception of the UK which has a AA Sovereign Rating. Should the UK sovereignty rating reduce further the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on latest available rating:

AAA

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

AA+

- Finland
- Hong Kong
- USA

AA

- UK

Appendix 3

Capital Financing Budget

2017/18 Outturn Position £'000		2018/19 Original Budget £'000	2019/20 Original Budget £'000
15,934	Principal and Interest charges	19,143	19,644
	Investment Income		
(527)	- Total	(390)	(300)
192	- less allocated to other funds *	160	110
(335)	**Subtotal Income**	**(230)**	**(190)**
0	Contribution from General Reserve	(340)	(180)
594	Contribution to Treasury Management Equalisation Reserve.		
16.193	**Net General Fund**	**18,573**	**19,274**

NB * Allocated to other Funds include interest paid out to Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.