
Treasury Management Strategy

Medway Council
2019/20

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1. Introduction

- 1.1 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 or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.
- 1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.
- 1.6 CIPFA defines treasury management 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."*
- 1.7 The Prudential Code prevents the authority borrowing for revenue purposes. Non-current assets not financed by unuseable reserves are financed by borrowing. This borrowing need is known as the capital financing requirement (CFR).
- 1.8 Borrowing may be from external sources such as the Public Works Loans Board, other authorities or commercial sources or it may be borrowed internally using cash otherwise available for investment (useable reserves). If internal borrowing takes place, the authority is said to be under borrowed. This does not imply that the authority should necessarily increase its external borrowing but merely reflects the extent to which additional external borrowing would be lawful.
- 1.9 The authority cannot borrow in excess of the CFR except where it is borrowing in advance

of need to avoid expected interest rate rises. If it were to borrow in excess of CFR for an extended period, this would be borrowing for revenue purposes which is unlawful. The Council sets an authorised limit to take account of any such borrowing in advance of need. Our practice is to set the authorised limit 10% higher than CFR.

- 1.10 Authorities are required to set aside part of their revenue budgets each year and place this is an unuseable reserve as a provision to repay borrowing. This requirement is known as the minimum revenue provision MRP. Many authorities have built up large cash balances because their annual MRP exceeds their need to fund capital expenditure (repayments due on borrowed funds).
- 1.11 Authorities have been given freedom to determine the methodology for calculating MRP. Medway members approved the use of an annuity method of provision which resulted in around £3million less MRP than under the traditional straight line approach. Under the annuity basis smaller sums are provided in the early years of the loan but these increase year on year. The effect is a bit like the principal element of a repayment mortgage where in the early years little of the monthly is repaid but towards the end of the mortgage most of the repayment is of the capital outstanding. However unlike the repayment mortgage the interest element remains constant throughout the term of the underlying loan. A more traditional approach to MRP is to set aside the same proportion of the loan each year. The saving generated from the use of the annuity method has enabled higher expenditure on services than would otherwise have been possible, but results in lower levels of cash balances which in turn means as capital expenditure takes place any borrowing requirement needs to be met by more external debt.
- 1.12 The Department for Communities & Local Government have issued statutory guidance limiting the life of assets used to calculate MRP to 50 years. The Council's MRP policy has updated accordingly.
- 1.13 The CFR is increased when capital expenditure is financed by borrowing and is reduced when provision is made by way of MRP. The relationship between the MRP provision made each year and the extent of internal borrowing needed is a key component in determining whether the authority's liquidity (cash) is increasing or reducing.
- 1.14 Unuseable reserves fund working capital, external investments and the internal borrowing.
- 1.15 Recent investment in property funds has been facilitated largely by switching some of the internal borrowing to external borrowing. This has reduced the amount by which Medway is under borrowed. As with all investment returns are not guaranteed and the value of the investments may fall as well as rise. Members need to be comfortable that the expected additional returns warrant the level of risk undertaken.

2. Reporting requirements

- 2.1. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:
 - a high-level long term 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
- 2.2. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy

requirements, governance procedures and risk appetite.

- 2.3. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - The payback period (MRP policy);
 - For non-loan type investments, the cost against the current market value;
 - The risks associated with each activity.
- 2.4. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 2.5. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 2.6. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.
- 2.7. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.
- 2.8. Alongside the Capital Strategy the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- 2.9. 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 (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).
- 2.10. A mid-year treasury management report: This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- 2.11. 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.
- 2.12. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

3. Treasury Management Strategy for 2019/20

3.1. The strategy for 2019/20 covers two main areas:

3.2. Capital issues

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

3.3. 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.

3.4. 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.

3.5. Training

3.5.1. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The training needs of Members and of treasury management officers are periodically reviewed.

3.6. Treasury management consultants

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

3.6.2. Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors.

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

3.6.4. The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties.

3.7. The Capital Prudential and Treasury Indicators 2019/20 – 2021/22

3.7.1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are

designed to assist Members overview and confirm capital expenditure plans.

3.7.2. The Capital prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Due to uncertainties over future funding the Capital expenditure it is likely that these indicators will evolve as the budget setting process progresses.

Table 1: Approved Capital Programme 2018/19

| Expenditure | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---------------|---------------|---------------|---------------|----------------|
| Children and Adult Services | 11.468 | 2.200 | 1.247 | 1.000 | 15.915 |
| Regeneration, Culture, Environment and Transformation | 38.881 | 16.545 | 5.715 | 0.754 | 61.895 |
| Housing Revenue Account | 6.592 | 0.453 | 0.000 | 0.000 | 7.045 |
| Business Support | 17.448 | 39.470 | 30.242 | 55.562 | 142.722 |
| Member Priorities | 0.194 | 0.000 | 0.000 | 0.000 | 0.194 |
| Total Expenditure | 74.583 | 58.668 | 37.204 | 57.316 | 227.771 |
| Prudential borrowing | 6.475 | 0.360 | 0.010 | 20.171 | 27.016 |
| Borrowing in lieu of capital receipts | 23.993 | 41.604 | 30.378 | 36.145 | 132.120 |
| Capital receipts | 3.354 | 0.000 | 0.000 | 0.000 | 3.354 |
| Right to Buy receipts | 0.427 | 0.000 | 0.000 | 0.000 | 0.427 |
| Grants | 30.993 | 15.982 | 6.816 | 1.000 | 54.791 |
| Revenue contributions | 7.257 | 0.453 | 0.000 | 0.000 | 7.710 |
| Devolved Formula Capital | 0.250 | 0.000 | 0.000 | 0.000 | 0.250 |
| Developer contributions | 1.834 | 0.269 | 0.000 | 0.000 | 2.103 |
| Total Funding | 74.583 | 58.668 | 37.204 | 57.316 | 227.771 |

3.7.3. The net financing need for commercial activities/ non-financial investments included in the above table against expenditure is shown below:

| Commercial Activities/non-financial Investments | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Capital Expenditure | 20 | 0 | 0 | 0 |
| Net financing need for the year | 20 | 0 | 0 | 0 |
| Percentage of total net financing need % | 65.2% | 0 | 0 | 0 |

3.7.4. A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 1.23 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity. The latest MHCLG guidance now discourages the use of borrowing to fund commercial activity. CIPFA is proposing a reliance indicator to ensure risk is kept within acceptable boundaries.

- 3.7.5. It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the authorised Limit represents the legislative borrowing limit.
- 3.7.6. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.
- 3.7.7. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3 of this report.
- 3.7.8. The Authorised Limit and Operational Boundary for external borrowing within Appendix 3 differentiate between external borrowing and “other long term liabilities”. Other long term liabilities are other methods the authority has used to finance capital expenditure including embedded leases. Embedded leases are where we pay for the lease of equipment by our contractors, for example refuse collection. Currently our embedded leases account for £296,000. We have therefore set the Operational Boundary for other long term liabilities at £500,000 and £550,000 for Authorised Limit in 2018/19 as well as 2019/20 and 2020/21.
- 3.7.9. The Prudential and Treasury indicators are set out in Appendix 3 to this report and are relevant for the purposes of setting an integrated strategy.

4. Borrowing

4.1. The Council’s borrowing need (the Capital Financing Requirement)

- 4.1.1. The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not 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. Any capital expenditure above, which has not immediately been paid for through a revenue of capital resource, will increase the CFR.
- 4.1.2. The CFR does not increase indefinitely, as the minimum revenue provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset’s life, and so charges the economic consumption of capital assets as they are used.
- 4.1.3. 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 by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £63,000 of such schemes within the CFR.
- 4.1.4. Members are asked to approve the CFR projections overleaf:

| | 2018/19 Estimate £000s | 2019/20 Estimate £000s | 2020/21 Estimate £000s | 2021/22 Estimate £000s |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| CFR – non housing | 219,780 | 258,046 | 283,459 | 334,114 |
| CFR – housing | 42,504 | 42,178 | 41,838 | 41,484 |
| CFR – Commercial activities/ non-financial investments | 20,000 | 20,000 | 20,000 | 20,000 |
| Total CFR | 282,284 | 320,224 | 345,297 | 395,598 |
| Movement in CFR | 27,240 | 37,940 | 25,074 | 50,300 |

4.1.5. Movement in CFR represented by:

| | | | | |
|--|--------|--------|--------|--------|
| Net Financing need for the year (above) | 30,618 | 41,964 | 30,388 | 56,316 |
| Less MRP/VRP and other financing movements | 3,378 | 4,024 | 5,315 | 6,015 |
| Movement in CFR | 27,240 | 37,940 | 25,074 | 50,300 |

4.1.6. A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 1.23 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity. The latest MHCLG guidance now discourages the use of borrowing to fund commercial activity.

4.1.7. In recent years the Council has used available cash balances to fund capital expenditure in preference to taking new external borrowing. Principally, because of the profile of the capital programme, the cash flow position is now such that in order to maintain liquidity we will need to take out external borrowing to manage our cash flow over the medium term.

4.1.8. It is envisaged, subject to revisions in the capital programme, that external borrowing will have increased by £30.60m over the course of 2018/19, £38.6m in 2019/20, £26.3m in 2020/21 and £51.0m in 2021/22.

4.2. Borrowing strategy

4.2.1. The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organized in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organization of the cash flow and, where capital plans require the organization of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential

indicators, the current and projected debt positions and the annual investment strategy.

4.2.2. Current portfolio position – The overall treasury management portfolio as at 31 March 2018 and the position as at 15 November 2018 is shown below for both borrowing and investment.

| TREASURY PORTFOLIO | | | | |
|--|--------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| | 31 Mar 18 Actual £000 | 31 Mar 18 Actual % | 15 Nov 8 Current £000 | 15Nov 18 Current % |
| Treasury Investments | | | | |
| Banks | 13,308 | 25.9 | 20,038 | 36.4 |
| Money Market Funds | 0 | 0 | 2,000 | 3.6 |
| UK Local Authorities | 15,000 | 29.2 | 10,000 | 18.2 |
| Total Managed In House | 28,308 | 55.2 | 32,038 | 58.2 |
| Externally Managed – Property Funds (at cost) | 22,999 | 44.8 | 22,999 | 41.7 |
| Total Treasury Investments | 51,307 | 100 | 55,037 | 100 |
| | | | | |
| Treasury External Borrowing | | | | |
| Charities | 54 | 0 | 54 | 0 |
| Local Authorities | 67,500 | 29.5 | 65,000 | 28.0 |
| PWLB | 60,524 | 26.3 | 65,524 | 28.2 |
| LOBOs | 101,800 | 44.3 | 101,800 | 43.8 |
| Total External Borrowing | 229,878 | 100 | 232,378 | 100 |
| | | | | |
| Net Borrowing | 178,571 | | 177,341 | |

4.2.3. The Council's forward projections for borrowing are summarized below. The table shows the actual external debt against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

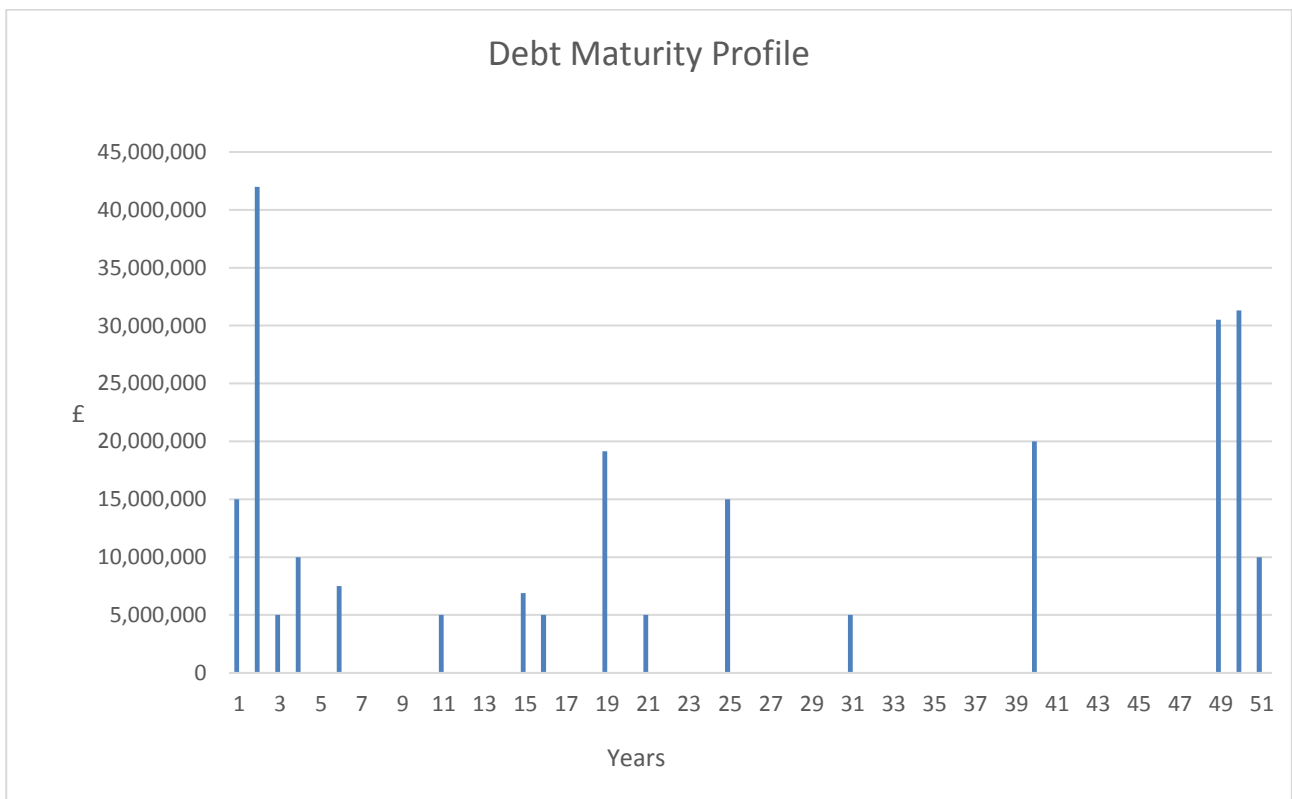
| | 2017/18 Actual £000s | 2018/19 Estimate £000s | 2019/20 Estimate £000s | 2020/21 Estimate £000s | 2021/22 Estimate £000s |
|--|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| External Debt | | | | | |
| Debt at 1 April | 198,324 | 229,878 | 260,496 | 299,082 | 325,446 |
| Expected Change in Debt | 31,554 | 30,618 | 38,586 | 26,364 | 51,001 |
| Actual Gross Debt at 31 March | 229,878* | 260,496 | 299,082 | 325,446 | 376,447 |
| Capital Financing Requirement 31 March** | 255,044 | 282,284 | 320,224 | 345,297 | 395,598 |
| Under/ (over) borrowing | 25,166 | 21,788 | 21,142 | 19,851 | 19,151 |

*actual external debt at 1 April 2018 per Capital Strategy £232.94m includes accrued interest

** MRP estimates (and consequently CFR) updated since Capital Strategy published

4.2.4. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.2.5. The repayment dated for maturity loans is shown below:



4.2.6. Officers will aim to smooth out the maturity profile and reduce reliance on short term borrowing but will seek to hold some short term debt to manage cash flow.

4.3. Treasury Indicators: limits to borrowing activities

4.4. The Operational Boundary

4.4.1. This is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Operational Boundary | 2018/19 Estimate £000s | 2019/20 Estimate £000s | 2020/21 Estimate £000s | 2021/22 Estimate £000s |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt | 339,284 | 372,224 | 402,297 | 452,598 |
| Other long term liabilities | 500 | 500 | 500 | 500 |
| Commercial activities/ non-financial investments | 43,000 | 43,000 | 43,000 | 43,000 |
| Total | 382,784 | 420,724 | 445,797 | 496,098 |

4.5. The authorised limit for external debt.

4.5.1. This is a key prudential indicator and represents a control on the maximum level of borrowing. It is a legal limit, determined under S3(1) of the Local Government Act 2003, beyond which external borrowing is prohibited, and this limit needs to be set or revised by full Council. 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.

| Authorised Limit | 2018/19 Estimate £000s | 2019/20 Estimate £000s | 2020/21 Estimate £000s | 2021/22 Estimate £000s |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt | 373,212 | 414,946 | 442,527 | 497,858 |
| Other long term liabilities | 550 | 550 | 550 | 550 |
| Commercial activities/ non-financial investments | 47,300 | 47,300 | 47,300 | 47,300 |
| Total | 421,062 | 462,797 | 490,377 | 545,708 |

| Upper Limit for Fixed Interest Rate Exposure | 2018/19 £000s | 2019/20 £000s | 2020/21 £000s | 2021/22 £000s |
|--|------------------|------------------|------------------|------------------|
| Net principal fixed rate borrowing | 461,062 | 462,797 | 490,377 | 545,708 |
| Net principal fixed rate investment | 50,000 | 50,000 | 50,000 | 50,000 |

| Upper Limit for Variable Rate Exposure | 2018/19 £000s | 2019/20 £000s | 2020/21 £000s | 2021/22 £000s |
|---|------------------|------------------|------------------|------------------|
| Net principal investment/borrowing (excluding LOBOs) at variable rate | 100,000 | 100,000 | 100,000 | 100,000 |
| LOBO limit | 102,000 | 102,000 | 102,000 | 102,000 |

| Maturity Structure of Fixed rate Borrowing during 2019/20 | Upper Limit | Lower Limit |
|---|-------------|-------------|
| under 12 months | 50% | 0% |
| 12 months and within 24 months | 50% | 0% |
| 24 months and within 5 years | 50% | 0% |
| 5 years and within 10 years | 50% | 0% |
| 10 years and above | 100% | 0% |

4.5.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was 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.*
- *if it was 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an 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 lower than they will be in the next few years.*

4.5.3. Short term borrowing rates and investment returns are very low and are expected to remain so for the medium term. Subject to factors outlined above, borrowing requirements will be met by use of short term loans. This approach minimises net cost of financing as it avoids the cost of carrying large cash balances which would need to be invested for a lower return than the borrowing cost.

4.6. Policy on borrowing in advance of need

4.6.1. 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.

4.6.2. 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.

4.7. Prospects for Interest Rates

4.7.1. 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 gives Capita Asset Services' central 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% | 2.60% | 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% |

4.7.2.

4.7.3. The overall longer run trend is for gilt yields and 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. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

4.7.4. 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.

4.7.5. 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 and emerging market developments. Such volatility could occur at any time during the forecast period.

4.7.6. 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.

4.8. Investment and borrowing rates

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

4.8.2. Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. 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;

4.8.3. 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.

4.9. Debt Rescheduling

4.9.1. As current interest rates are in many cases lower than existing long term borrowing there may be opportunities to reschedule these debts and generate savings. 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).

4.9.2. The reasons for any rescheduling to take place will include:

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

4.9.3. 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.

4.9.4. Decisions related to rescheduling will similarly be reported in reviews of this strategy.

5. Investment

5.1. Annual Investment Strategy

5.1.1. Investment policy – management of risk

5.1.2. The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

5.1.3. The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018
- The Council’s investment priorities will be security first, portfolio liquidity second and

then yield, (return).

- 5.1.4. The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
- 5.1.5. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- 5.1.6. Other information: 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.
- 5.1.7. 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.
- 5.1.8. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5 under the categories of ‘specified’ and ‘non-specified’ investments.
- 5.1.9. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
- 5.1.10. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- 5.1.11. Non-specified investments limit; the Council has determined that it will limit the maximum total exposure to non-specified investments to the monetary amounts specified in appendix 4.
- 5.1.12. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Treasury Management Practice 1, paragraph 1.12.
- 5.1.13. Transaction limits are set for each type of investment in appendix 4.
- 5.1.14. This authority will set a limit for the amount of its investments which are invested for longer than 365 days, (see appendix 4).
- 5.1.15. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see appendix 4).
- 5.1.16. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- 5.1.17. All investments will be denominated in sterling.
- 5.1.18. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year

to the General Fund. (The Ministry of Housing, Communities and Local Government [MHCLG], has granted an override of 5 years for implementation.

5.1.19. However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

5.2. **Creditworthiness policy**

5.2.1. This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard & Poor’s. 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.

5.2.2. 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow – 5 years
- Purple – 2 years
- 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

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

5.2.4. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of F1, a Long Term rating 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.

5.2.5. All credit ratings will be monitored, primarily via Link Asset Services updates, by Officers on a continuous basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services 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.
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis via its Passport website, provided exclusively to it by Link Asset

Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.2.6. 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 any external support for banks to help support its decision making process.

5.3. **Counterparty Limits**

5.3.1. The current counterparty limits are set as;

- In-house team £20 million limit per counterparty and £25 million for counterparties with a Link Asset Services duration rating of 12 months or above.

5.3.2. No amendments are requested to these counterparty limits.

5.4. **Country limits**

5.4.1. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

5.4.2. In addition:

- no more than £40m will be placed with any non-UK country at any time;
- limits in place will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

5.5. **Investment Strategy**

5.5.1. 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).

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

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

5.6. **Investment in Property Funds**

5.6.1. Property Funds are a form of investment, comprising a portfolio of commercial properties to achieve investment returns through rental income and capital growth. However, the value of such investments may fall as well as rise. There may also be restrictions on redemption of the investment. This type of investment is regarded as a 5 to 7 year minimum timeframe.

5.6.2. Due diligence was undertaken before the Council invested in the CCLA Property Fund and the CFO would carefully consider the Council's cash balances and cashflow projections before investing further amounts.

5.7. **Loans to Social Enterprises and Similar Organisations**

5.7.1 Medway will consider advancing funds to organisations where the purpose of such loans advances Council priorities.

5.8. Investment in Money Market Funds

- 5.8.1. Money Market Funds (MMFs) often offer enhanced returns compared with bank call accounts while reducing bail- in risk through diversification. Investment has been made in a MMF operated by CCLA and officers with consider making similar investments in other MMFs.
- 5.8.2. **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.

| Upper limit for principal sums invested for longer than 365 days | | | |
|---|------------|------------|------------|
| | 2019/20 £m | 2021/22 £m | 2012/22 £m |
| Principal sums invested for longer than 365 days | 150 | 150 | 150 |
| Current Investments as at 25.11.18 in excess of 1 year maturing each year | 5 | 5 | 0 |

5.9. End of year investment report

- 5.9.1. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

6. Kent County Council (KCC) Local Government Reorganisation (LGR) Debt

- 6.1. The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. Whilst the County rate at a projected 4.721% remains marginally higher than our own average long- term debt rate of 4.218% for 2017/18, the penalty involved in early repayment makes early redemption an unattractive option. The outstanding principal at 1 April 2019 will be £34 million.

7. Minimum Revenue Provision (MRP)

- 7.1. The Minimum Revenue Provision is explained and the Policy Statement for 2018/19 is set out at Appendix 1.
- 7.2. An annuity method of allocating amounts of MRP to each year of asset life was adopted with effect from 2015/16. This works in a similar way to a repayment mortgage where the principal repaid in the early years is small but grows proportionally towards the end of the repayment period. Similarly the amount of MRP under this method starts with a small level of provision and rises over the life of the assets.
- 7.3. The policy has been revised to limit the period over which the financing is provided on expenditure after 1 April 2018 to 50 years in line with the latest MHCLG guidance.

8. Appendix 1 – Minimum Revenue Provision Policy Statement 2019/20

- 8.1. In setting the Minimum Revenue Provision Policy, Medway Council has regard to the Minimum Revenue Provision (MRP) guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
- 8.2. MRP is calculated on an annuity basis over the estimated lives of assets funded from debt. The period over which provision is made for all expenditure after 1 April 2018 is subject to an upper limit of 50 years in line with the latest MHCLG guidance. MRP on expenditure prior to 1 April 2018 is provided over the remaining life previously estimated.
- 8.3. The Council will treat all expenditures as not ranking for MRP until the year after the scheme or asset to which they relate is completed and/or brought into use.
- 8.4. Estimated life periods will be determined under delegated powers.
- 8.5. 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.
- 8.6. In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), or where borrowing has occurred but will be repaid by future Capital Receipts or agreed income from other source, there will be no Minimum Revenue Provision made.
- 8.7. There is no requirement on the HRA to make a minimum revenue provision, though in the interests of prudence the council has opted to do so.

9. Appendix 2 – Interest Rate Forecasts 2018-2022

PWLB rates below have taken into account the 20 basis points certainty rate reduction.

| Bank Rate | | | | | | | | | | | | | | | |
|-----------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | NOW | 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 |
| 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% | 1.75% | 1.75% | 1.75% | 2.00% |
| 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 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Link Asset Services | 1.77% | 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% |
| Capital Economics | 1.77% | 2.00% | 2.00% | 2.20% | 2.40% | 2.70% | 2.70% | 2.80% | 2.80% | 2.90% | - | - | - | - | - |
| 10yr PWLB Rate | | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.19% | 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% |
| Capital Economics | 2.19% | 2.30% | 2.40% | 2.60% | 2.80% | 3.10% | 3.10% | 3.10% | 3.10% | 3.10% | - | - | - | - | - |
| 25yr PWLB Rate | | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.79% | 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% |
| Capital Economics | 2.79% | 2.80% | 3.00% | 3.10% | 3.30% | 3.60% | 3.50% | 3.50% | 3.40% | 3.40% | - | - | - | - | - |
| 50yr PWLB Rate | | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.66% | 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% |
| Capital Economics | 2.66% | 2.70% | 2.80% | 2.90% | 3.20% | 3.40% | 3.40% | 3.40% | 3.40% | 3.40% | - | - | - | - | - |

10. Appendix 3 – Prudential and Treasury Indicators

| PRUDENTIAL INDICATORS | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
|---|-----------------|-----------------|-----------------|-----------------|
| Extract from budget and rent setting report | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 |
| Capital Expenditure | | | | |
| Non - HRA | 68,869 | 52,641 | 32,516 | 50,138 |
| HRA | 5,714 | 6,027 | 4,688 | 7,178 |
| TOTAL | 74,583 | 58,668 | 37,304 | 57,316 |
| Ratio of financing costs to net revenue stream | | | | |
| Non - HRA | 6.52% | 6.92% | 6.49% | 4.78% |
| HRA | 12.67% | 12.61% | 12.44% | 12.05% |
| Gross borrowing requirement | | | | |
| brought forward 1 April | 232,940 | 263,558 | 302,144 | 328,508 |
| carried forward 31 March | 263,558 | 302,144 | 328,508 | 379,509 |
| in year borrowing requirement | 30,618 | 38,586 | 26,364 | 51,001 |
| Capital Financing Requirement as at 31 March | | | | |
| Non – HRA | 219,780 | 258,046 | 283,459 | 334,114 |
| Commercial/ Non-Financial | 20,000 | 20,000 | 20,000 | 20,000 |
| HRA | 42,504 | 42,178 | 41,838 | 41,484 |
| TOTAL | 282,284 | 320,224 | 345,297 | 395,598 |
| Annual change in Cap. Financing Requirement | | | | |
| Non – HRA | 26,376 | 38,266 | 25,413 | 50,655 |
| Commercial/ Non-Financial | 0 | 0 | 0 | 0 |
| HRA | 864 | -326 | -340 | -354 |
| TOTAL | 27,240 | 37,940 | 25,073 | 50,301 |

| TREASURY MANAGEMENT INDICATORS | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
|--|------------------|------------------|------------------|------------------|
| | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 |
| Authorised Limit for external debt | | | | |
| - | | | | |
| Borrowing | 373,212 | 414,946 | 442,527 | 497,858 |
| Other long term liabilities | 550 | 550 | 550 | 550 |
| Commercial activities/ non-financial investments | 47,300 | 47,300 | 47,300 | 47,300 |
| TOTAL | 421,062 | 462,796 | 490,377 | 545,708 |
| Operational Boundary for external debt - | | | | |
| Borrowing | 339,284 | 377,224 | 402,297 | 452,598 |
| Other long term liabilities | 500 | 500 | 500 | 500 |
| Commercial activities/ non-financial investments | 43,000 | 43,000 | 43,000 | 43,000 |
| TOTAL | 382,784 | 420,724 | 445,797 | 496,098 |
| Estimated actual external debt (31 March) | 260,496 | 299,082 | 325,446 | 376,447 |
| Upper limit for fixed interest rate exposure | | | | |
| Net principal re fixed rate borrowing | 421,062 | 462,796 | 490,377 | 545,708 |
| Net Principal fixed Rate investment | 50,000 | 50,000 | 50,000 | 50,000 |
| Upper limit for variable rate exposure | | | | |
| Net principal re variable rate borrowing / investments (excluding LOBOs) | 100,000 | 100,000 | 100,000 | 100,000 |
| LOBO Limit | | | | 102,000 |
| | 102,000 | 102,000 | 102,000 | |
| Upper limit for total principal sums invested for over 1 year | | | | |

| | | | | |
|---------------------|---------|---------|---------|---------|
| (per maturity date) | 150,000 | 150,000 | 150,000 | 150,000 |
|---------------------|---------|---------|---------|---------|

| TABLE 5: Maturity structure of fixed rate borrowing during 2017/2018 | upper limit | lower limit |
|---|--------------------|--------------------|
| under 12 months | 50% | 0% |
| 12 months and within 24 months | 50% | 0% |
| 24 months and within 5 years | 50% | 0% |
| 5 years and within 10 years | 50% | 0% |
| 10 years and above | 100% | 0% |

11. Appendix 4 – Specified and Non-specified Investments

SPECIFIED INVESTMENTS: (All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

| | * Minimum ‘High’ Credit Criteria | Use |
|--|---|--|
| Debt Management Agency Deposit Facility | -- | In-house and Fund Manager |
| Term deposits – local authorities | -- | In-house and Fund Manager |
| Term deposits – banks and building societies | See note 1 | In-house and Fund Manager |
| Collateralised deposit (see note 3) | UK sovereign rating | In-house and Fund Manager |
| Certificates of deposit issued by banks and building societies | See note 1 | In-house and Fund Manager |
| UK Government Gilts | UK sovereign rating | In-house buy and hold and Fund Manager |
| Bonds issued by multilateral development banks | AAA | In-house buy and hold and Fund Manager |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation) | UK sovereign rating | In-house buy and hold and Fund Manager |
| Sovereign bond issues (other than the UK govt) | AAA | In-house buy and hold and Fund Manager |
| Treasury Bills | UK sovereign rating | In house and Fund Manager |
| Government Liquidity Funds | * Long-term AAA volatility rating V1+ | In-house and Fund Managers |
| Money Market Funds CNAV, LVNAV or VNAV | * Long-term AAA volatility rating V1+ | In-house and Fund Managers |

Note 1. Award of “Creditworthiness” Colour by Link Asset Services as detailed in paragraph 1.55.2.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

| | * Minimum Credit Criteria | Use | ** Max total investments | Max. maturity period |
|---|----------------------------------|------------|------------------------------------|--|
| Fixed term deposits with variable rate and variable maturities: -Structured deposits | See note 1 | In-house | £10m | Lower of 5 years or Link duration rating |
| Property Funds | See note 2 | In-house | £25m (original cost of investment) | N/A |

2. Maturities in excess of 1 year

| | * Minimum Credit Criteria | Use | ** Max total investments | Max. maturity period |
|--|----------------------------------|------------|---------------------------------|--|
| Term deposits – local authorities | -- | In-house | £25m | 5 Years |
| Term deposits – banks and building societies | See note 1 | In-house | £25m | As per Link duration rating |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | See note 1 and 2 | In-house | £25m | As per Link duration rating and see note 3 |
| Certificates of deposit issued by banks and building societies | See note 1 and 2 | In-house | £25m | As per Link duration rating and see note 3 |
| UK Government Gilts | UK sovereign rating | In-house | £25m | see note 1 |
| Bonds issued by multilateral development banks | AAA | In-house | £10m | see note 1 |
| Sovereign bond issues (other than the UK govt) | AAA | In-house | £10m | see note 1 |
| Social Enterprises | See note 3 | In House | £5m | 25 years |

Note 1. Award of “Creditworthiness” Colour by Link Treasury services as detailed in paragraph 1.55.2

Note 2 Property Funds are not credit rated.

Note 3 Social Enterprises may not be credit rated

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

12. Appendix 5 – Approved countries for investments

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K

AA-

- Belgium
- Qatar

13. Appendix 6 – Amendments to the Treasury Management Practices

The following principal changes have been made to the TMPs compared with those published in January 2018:

Treasury Management Practice 1: Treasury Risk Management:

- TMP 1.12 The list of counterparties falling into each credit rating category has been updated.
- TMP 1.53 Reference to the impact on council tax and housing rents has been deleted as the related prudential indicator is no longer required under the Code.
- TMP 1.54 The paragraph in previous strategies which referred to definitions in the Prudential Code has been deleted as the 2018 edition of the Code does not include these definitions.
- TMP 1.63 Updated for guidance and codes issued in 2018 and also date of revision of Prudential Code updated to 2017
- TMP 1.88 et seq. Insurance details updated
- TMP 1.94 et seq. Money Market Funds added to the list of investments subject to procedures and limits for controlling exposure to investments whose capital value may fluctuate

Treasury Management Practice 5: Organisation, clarity and segregation of responsibilities and dealing arrangements]

- TMP .7 Wording of S151 Officers duties updated

Treasury Management Practice 3: Decision Making and Analysis

- TMP 3.2 retention of contract notes and statements of units, management expenses and dividends expanded to include all property funds

Use of External Service Providers

- TMP 11.4 responsibility for annual performance review of brokers now the responsibility of the Head of Finance Strategy

Corporate Governance

- TMP 12.4 Capital Strategy replaces 3 Year Capital Plan