Agenda Item No:	**9**	Fenland CAMBRIDGESHIRE
Committee:	Corporate Governance Committee	
Date:	5 February 2019	
Report Title:	Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2019/20	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to provide Members with information on the proposed Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement and Annual Investment Strategy for 2019/20.

2 Key issues

- The prudential and treasury indicators detailed in paragraphs 2-11, show that the Council's capital investment plans are affordable, prudent and sustainable.
- The Capital Strategy sets out the context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast.
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/18) currently attracting excessive premiums; it is not financially advantageous for the Council to comply with the gross borrowing and capital financing prudential indicator.
- Total external interest which includes finance lease interest payments; revised estimate for 2018/19 is £507,940 and the estimate for 2019/20 is £574,000.
- Bank rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022.
- The aim of the Council's annual investment strategy is to provide security of investments whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- Total investment income is an estimated £170,000 for 2018/19 and £180,000 for 2019/20.

3 Recommendations

It is recommended that:-

- Corporate Governance Committee endorses the strategy detailed in this report to be included in the final budget report for 2019/20.

Wards Affected	All
Portfolio Holder(s)	Cllr Anne Hay, Portfolio Holder, Finance
Report Originator(s)	Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Contact Officer(s)	Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Budget working papers

Report:

1 Introduction

1.1 The Council is required to operate a balance 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 low 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, when it is prudent and economic, 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 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government's (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 The Council has not engaged in any commercial investments and has no non-treasury investments.

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 document, a Capital Strategy (see Appendix A attached), 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; and
- the implications for future financial sustainability.

2.2 The aim of the Capital Strategy is to ensure that all elected members on full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Corporate Governance Committee and Cabinet before being recommended to the Council.

2.4 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report is forward looking and covers:

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

A Mid-Year Treasury Management Report - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

An Annual Treasury Report - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.5 The Strategy covers two main areas:

Capital issues;

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

Treasury management issues;

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

3 Capital Prudential Indicators 2019/20 to 2021/22

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

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

Capital Programme	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Forecast Capital Expenditure	**3,690**	**5,811**	**1,750**	**1,415**
Financed by:				
Capital Receipts	144	467	225	0
Capital Grants	1,222	1,018	950	950
Capital Reserves	1,069	429	69	0
Section 106 Contributions	313	0	0	0
Total Financing	**2,748**	**1,914**	**1,244**	**950**
Net Financing Need For The Year (Borrowing)	**942**	**3,897**	**506**	**465**

3.3 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 yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.

3.4 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). This has the effect of reducing the Council's (CFR) broadly over the assets life.

3.5 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 5 to 7 years). The annual lease payment is made up of a capital and interest repayment.

3.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

Capital Financing Requirement	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
CFR at 1 April	**765**	**1,556**	**5,201**	**5,052**
Movement in CFR	**791**	**3,645**	**(149)**	**(210)**
Net financing need for the year	942	3,897	506	465
Less MRP	(151)	(252)	(655)	(675)
Movement in CFR				

4 Minimum Revenue Provision (MRP) Policy Statement

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

4.2 MHCLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils, so long as there is a prudent provision. For all new unsupported borrowing (including finance leases) the MRP policy will be the asset life method - MRP will be based on the estimated useful life of the assets, in accordance with regulations. This option provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

5 The Use of Council's Resources and the Investment Position

5.1 The application of resources (capital receipts, reserves etc) and temporary use of 'surplus cash balances' to both finance capital expenditure and other budget decisions to support the revenue budget will have an ongoing impact on reducing cash investment balances held (see below). Unless resources are supplemented each year from new sources (asset sales, capital grants etc), then new borrowing will be required to fulfil the objectives as set in the Council's Business Plan. Detailed below are estimates of the year end balances for each resource.

Year End Resources	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund balances / reserves	**9,069**	**8,040**	**7,920**	**7,870**
Capital Grants Unapplied	**(44)**	**(44)**	**(44)**	**(44)**
Total core funds	**9,025**	**7,996**	**7,876**	**7,826**
Expected Cash investments	**17,500**	**16,000**	**15,500**	**15,000**

6 Affordability Prudential Indicators

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

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

Financing Costs to Net Revenue Stream	2018/19 Revised Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	**3.71**	**5.23**	**7.85**	**7.58**

7 Treasury Management Strategy

7.1 The capital expenditure plans set out in section 3 provide a summary of future level of spend. 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 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 as at 31 March 2018 for borrowing and investments was £8.514m and £19.5m respectively. As of 31 December 2018, investments are £23.75m (see Appendix B attached) and borrowing remains unchanged at £8.514m.

7.3 The Councils forward projections for borrowings are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt at 1 April	**7,800**	**7,800**	**10,536**	**10,128**
Expected change in debt	**0**	**2,736**	**(408)**	**(408)**
Other long term liabilities (OLTL)	**715**	**563**	**406**	**243**
Expected change in OLTL	**(152)**	**(157)**	**(163)**	**(137)**
Actual gross debt at 31 March	**8,363**	**10,942**	**10,371**	**9,826**
Capital financing requirement (CFR) at 31 March	**1,556**	**5,201**	**5,052**	**4,842**
Borrowing less CFR – 31 March	**6,807**	**5,741**	**5,319**	**4,984**

7.4 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 total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue or speculative purposes, other than where the borrowing fits in with the Council's approved Investment Strategy (Appendix A refers).

7.5 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/19) currently attracting excessive premiums (£2.885m at the time of writing this report), if it were prematurely repaid and the fixed rate market loan of £3.3m (31/03/2019), attracting a premium charge on application to prematurely repay, it is not financially advantageous for the Council to fully comply with this prudential indicator. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

7.6 Interest repayments associated with the external debt (including finance leases) above are shown below.

YEARS	INTEREST DUE £
2018/19	507,940
2019/20	574,000
2020/21	565,000
2021/22	556,000

7.7 The operational boundary 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.

Operational Boundary	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**13,000**	**13,000**	**13,000**	**13,000**

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

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

Authorised limit	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**18,000**	**18,000**	**18,000**	**18,000**

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 Assets Service's central view.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	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	0.90%	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	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	1.20%	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	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	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%	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%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

8.2 The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

8.3 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets.

8.4 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.

8.5 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 2.25 – 2.50% in December 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 therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

8.6 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

8.7 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.

9 Borrowing Strategy

9.1 The Council will not borrow more than or in advance of its needs purely in order to profit from investment of the extra sums borrowed, other than where the borrowing fits in with the Council's approved Investment Strategy. 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.

9.2 Risks associated with borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

9.3 As a result of the Council's decision not to repay debt of £7.8m at the time of the housing stock transfer in 2007, the Council is currently over borrowed (see paragraph 7.5 above); the Council's gross debt exceeds its CFR over the term of the treasury strategy.

9.4 Where the Council has insufficient internal resources to funds its capital programme the difference between available resources and funds required is met through borrowing. The Council is able to borrow internally if it identifies that it has surplus funds currently held in investments which could be used to finance its capital programme. However, any decision to borrow internally has to consider when any funds borrowed might be required to support the day-to-day cash needs of the Council. Unless the Council is able to increase the surplus funds it has available, i.e. through generating surpluses on the revenue account, internal borrowing will only provide a temporary solution to funding the capital programme.

9.5 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.

9.6 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences will be reported to Cabinet through either the mid-year or annual treasury management reports.

9.7 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 interest rate borrowing 2019/20	Lower %	Upper %
Under 12 months	0	20
12 months to 2 years	0	50
2 years to 5 years	0	75
5 years to 10 years	0	75
10 years and above	0	100

Maturity structure of variable interest rate borrowing 2019/20	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

10 Debt Rescheduling / Repayment

10.1 The Council has sufficient cash balances set aside to pay off its external debt.

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

- the generation of cash savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio by flattening the maturity profile.

10.3 The Council's debt rescheduling position will be monitored throughout 2019/20.

11 Annual Investment Strategy

11.1 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"); and
- CIPFA Treasury Management Guidance Notes 2018.

11.2 The intention of the strategy is to provide security and minimise risk. The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments;
- return on its investments.

11.3 The above guidance from the MHCLG and CIPFA, place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means.

11.4 Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings

11.5 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.

11.6 Investment instruments identified for use in the financial year are listed below under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

11.7 **Specified Investments –** These investments are sterling investments (meeting the minimum ‘high’ quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:

- term deposits with part nationalised banks and local authorities;
- term deposits with high credit criteria deposit takers (banks and building societies);
- callable deposits with part nationalised banks and local authorities
- callable deposits with high credit criteria deposit takers (banks and building societies);
- money market funds (CNAV) / (LVNAV) / (VNAV)
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.

11.8 **Non-Specified Investments –** These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with part nationalised banks and local authorities;
- callable deposits with part nationalised banks and local authorities
- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.
- Property funds.

11.9 As a result of the change in accounting standards for 2018/19 under **IFRS 9,** the Council 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. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.).

11.10 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). Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.

11.11 Bank rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022. Bank rate forecasts for financial year ends (March) are:

- 2018/19 - 0.75%
- 2019/20 - 1.25%
- 2020/21 - 1.50%
- 2021/22 – 2.00%

11.12 The overall balance of risks to economic growth, increases in Bank Rate and shorter term PWLB rates, are probably neutral, dependant on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively . Forecast average investment interest rates for returns on investments placed for periods up to about three months during each financial year are as follows:

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

11.13 Estimated investment income is shown below.

YEARS	INTEREST RECEIVED £
2018/19	170,000
2019/20	180,000
2020/21	200,000
2021/22	210,000

11.14 **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.

	2019/20 £000	2020/21 £000	2021/22 £000
Maximum principal sums invested > 365 days	**8,000**	**8,000**	**8,000**

11.15 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 100 days) in order to benefit from the compounding interest.

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

12 Creditworthiness Policy

12.1 The 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, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

12.2 The 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 suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
- 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.

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

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

12.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

12.6 All credit ratings are monitored weekly and prior to any new investment decision. 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 swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

12.7 Sole reliance will not be placed on the use of Link Asset Services Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.

12.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council’s Treasury Management Practices – schedules.

12.9 The Council currently only invests in UK banks, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

13 External Service Providers

13.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority 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 available information, including, but not solely, our treasury advisors.

13.2 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.

APPENDIX A

FENLAND DISTRICT COUNCIL

CAPITAL STRATEGY 2019/20-2021/22

1. OVERVIEW AND CONTEXT

1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.

1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets outs the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.

1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:

- all capital expenditure and investment plans are affordable;
- all external borrowing and long-term liabilities are within prudent and sustainable levels;
- treasury management and other investment decisions are taken in accordance with professional good practice; and
- authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.

1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.

1.5 Following an update to the Prudential Code in December 2017, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority’s appetite to risk.

1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.

2. CAPITAL EXPENDITURE

2.1 Capital expenditure incorporates a range of different types of financial transaction which the Council might enter into. What these transactions have in common is that they relate to investments decisions which impact on the Council and its stakeholders over a period which extends beyond the financial year in which the transaction is entered into. The Council's appointed S151 Officer ultimately has responsibility for determining whether expenditure is capital in nature in accordance with relevant regulation and statute.

Role and Purpose of the Asset Management Plan

2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.

2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.

2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director (Growth and Infrastructure). The Assets and Projects team regularly appraise the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change, the Assets and Project team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

2.5 The capital resources required to meet investment needs identified as part of the Asset Management Plan are routinely assessed and anticipated capital expenditure is profiled over the financial years when it is expected to be incurred. On at least an annual basis capital schemes identified as part of the Asset Management Plan are presented to a meeting of the Council's Corporate Asset Team to determine when and if they should be incorporated into the Council's Capital Programme.

Investment in New Land and Buildings

2.6 The Council recognises that circumstances might arise where the Council could benefit from an investment which expands its existing asset base. Such investments might relate to operational or non-operational assets. As with an investment in existing assets, all proposals for investment in new land or buildings will initially be considered at a meeting of the Corporate Asset Team

2.7 The Council is currently developing an Investment Strategy. The purpose of the Strategy is to ensure the Council has a robust and transparent framework in place to support decision-makers to make decisions where the rationale supporting proposed investment is not exclusively or principally concerned with the delivery of Council services.

Investment in Vehicles, Plant, Equipment and IT

2.8 The Council has nominated service managers who are responsible for the vehicles, plant and information technology assets in use within the Council. These assets all have an expected useful economic life informed by an assessment by the nominated manager. The need to allocate capital resources to fund the replacement of these assets at the end of their useful life is assessed annually by the Council's Corporate Asset Team. There is also an annual appraisal of business cases relating to proposals to invest in additional equipment not reflected in the programme of rolling replacements.

Role and Function of the Corporate Asset Team

2.9 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the Corporate Director (Growth and Infrastructure). On behalf of the Council's Corporate Management Team, the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.

2.10 All proposed changes to the Council's three-year capital programme are subject to review by the Corporate Asset Team prior to being considered by Corporate Management Team, the Cabinet and Full Council. Any scheme which is not already incorporated into the Council's Asset Management Plan will only be considered for inclusion in the Capital Programme if the Officer proposing the scheme can demonstrate, with appropriate evidence, one or more of the following:

- there is a statutory obligation for the Council to incur the capital expenditure proposed;
- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;
- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

2.11 The capital financing regulations permit the Council to treat as capital expenditure certain types of transaction which do not result in the acquisition of a physical asset by the Council. These transactions can be high-volume, small value transactions such as the awarding of Disabled Facilities Grants which are currently funded from monies received as part of Cambridgeshire County Council's Better Care Fund allocation. Such transactions do not require specific approval providing the nature and purpose of the expenditure has been approved as part of the Capital Programme.

2.12 Any proposals to incur capital expenditure which does not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 will be considered at a meeting of CMT prior to being forward to the Cabinet and, where appropriate, full Council for consideration and approval. Possible examples include, but are not restricted to:

- granting loans to third parties;

- acquiring share capital in a third party;

- establishing a joint venture or subsidiary company; or

- providing grant-funding to a third party which enables that third party to undertake expenditure which would have been capital in nature had it been undertaken by the Council.

3. DEBT AND BORROWING AND TREASURY MANAGEMENT

3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer.

Key Considerations relating to Treasury Management

3.2 The tables below set out the Council's Investment and Debt positions with forward projections.

Year End Investments	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund balances / reserves	**9,069**	**8,040**	**7,920**	**7,870**
Capital Grants Unapplied	**(44)**	**(44)**	**(44)**	**(44)**
Total core funds	**9,025**	**7,996**	**7,876**	**7,826**
Expected investments	**17,500**	**16,000**	**15,500**	**15,000**

Table 1: Year End Investment Balances projected over the period 1 April 2018 – 31 March 2022

Year-End Debt	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt at 1 April	**7,800**	**7,800**	**10,536**	**10,128**
Expected change in debt	**0**	**2,736**	**(408)**	**(408)**
Other long term liabilities (OLTL)	**715**	**563**	**406**	**243**
Expected change in OLTL	**(152)**	**(157)**	**(163)**	**(137)**
Actual debt at 31 March	**8,363**	**10,942**	**10,371**	**9,826**
Net Investment/(Debt) as at 31 March	**9,137**	**5,058**	**5,129**	**5,174**

Table 2: Year End Debt and Net Investment projected over the period 1 April 2018 – 31 March 2022

3.3 At 1 April 2018 the Council's Debt position comprised other long-term liabilities relating to finance leases of £715k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2018, will continue to be carried forward due to the current historically low interest rates.

3.4 Regulation requires the Council to determine, as part of the Treasury Management Strategy, the maximum external debt position for the upcoming three financial years. This is known as the Council's authorised limit. Additionally, the Council is required to set an operational boundary. The purpose of the operational boundary is to set a threshold for external borrowing which the Council would not expect to exceed in the ordinary management of its affairs. Sustained breaches of the operational boundary would be indicative that the Council could be at risk of exceeding its authorised limit.

3.5 The current authorised limits and operational boundaries for the period covered by this strategy are set out in the table below

Operational Boundary	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**13,000**	**13,000**	**13,000**	**13,000**

Table 3: Operational Boundary over the period 1 April 2018 – 31 March 2022

Authorised Limit	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**18,000**	**18,000**	**18,000**	**18,000**

Table 4: Authorised Limit over the period 1 April 2018 – 31 March 2022

3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.

3.7 Regulations prevent the Council from borrowing in advance of need. However, there is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing. To manage interest rate effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.

3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis. Based on Table 2 above MRP expected to be charged to revenue over the life of this strategy is as follows:

	Projected Minimum Revenue Provision £000
2018/19	151
2019/20	252
2020/21	655
2021/22	675

Table 5: Projected Minimum Revenue Provision over the period 1 April 2018 – 31 March 2022

3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's current MRP policy allocates MRP in equal instalments over a period reflecting the anticipated life of the asset purchased from borrowing undertaken by the Council. This is one of the methods suggested in guidance published by central government.

4. COMMERCIAL ACTIVITY

4.1 The Council has a portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:

- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space

- South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space

- South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use

4.2 The Council recognises that investing in other non-operational assets has the potential to generate new sources of revenue as well as supporting the achievement of the priorities set out in the Council Business Plan. There are no significant current projects in the Capital Programme to increase the portfolio of non-operational assets. However, should an opportunity arise to make an investment of this nature, the decision will be taken with reference to the Council's Investment Strategy which is currently being developed.

4.3 The Council recognises that there are other types of investment opportunity available to local authorities which do not result in the acquisition of a physical asset. Examples include the types of capital expenditure set out in paragraph 2.12 above and also investments in instruments such as unit trusts and pooled investments funds. Any investments of this nature will be appraised in accordance with the Council's Investment Strategy once this has been finalised or the Treasury Management Strategy. Future updates to this Capital Strategy will summarise the key elements of the Investment Strategy.

5. KNOWLEDGE AND SKILLS

5.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

5.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by Link Asset Services.

5.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

APPENDIX B

TEMPORARY INVESTMENTS AS AT 31/12/2018

BORROWER	AMOUNT £000	START DATE	MATURITY DATE	PERIOD IN DAYS	CURRENT INTEREST RATE %
Barclays Bank*	4,250	16/06/14		Flexible Interest	0.60
Santander UK	5,000	15/12/15		180 Day Notice A/C	1.00
Bank of Scotland	1,000	13/06/18	12/06/19	364	1.00
Lloyds Bank	1,500	21/08/18	19/03/19	210	0.88
Eastleigh Borough Council	2,000	03/09/18	28/02/19	178	0.75
Bank of Scotland	1,000	11/10/18	24/01/19	105	0.91
Lloyds Bank	3,500	15/10/18	24/01/19	101	0.91
Yorkshire BS	1,000	15/10/18	21/01/19	98	0.76
Yorkshire BS	1,500	03/12/18	21/01/19	49	0.71
Bank of Scotland	3,000	20/12/18	28/02/19	70	0.76
Total Investments at 31/12/2018	23,750				

* Barclays Bank Call Account is operated on the basis of meeting more immediate/very short term needs of the Council eg. payment of salaries, suppliers, benefits etc. Therefore a level of balance is maintained dependent on the immediate and very short-term requirements of the Council.