Name and date of meeting: **Corporate Governance and Audit Committee 24 January 2020**

Cabinet 28 January 2020

Council 12 February 2020

Title of report: Treasury Management Strategy 2020-21

Purpose of report

Under the CIPFA Code of Practice on Treasury Management (2017) and accompanying Prudential Code 2017 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy an Annual Investment Strategy must also be approved by Council.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Yes**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Is it also signed off by Service Director** **Is it also signed off by the Service Director Legal, Governance and Commissioning**	**N/A** **Eamonn Croston** **Julie Muscroft**
Cabinet member portfolio	**Corporate** **Graham Turner**

Electoral wards affected: **N/A**
Ward councillors consulted: **N/A**
Public or Private: **Public**
GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1 Summary

1.1 The Council has formally adopted CIPFA's Code of Practice on Treasury Management (2017 Edition), and accompanying Prudential Code 2017, and is thereby required to consider a treasury management strategy before the start of each financial year. In addition, the Ministry for Housing, Communities and Local Government (MHCLG) issued guidance on local authority investments in February 2018, which requires the Council to approve an annual Investment Strategy before the start of each financial year.

1.2 This report meets the requirements of the current CIPFA Codes and current MHCLG Guidance (2017 Edition).

1.3 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. Recent training for members of this Committee was provided in November 2019 by the Council's treasury management advisors/consultants, Arlingclose.

1.4 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2020-21;

(ii) outline the current and estimated future levels of Council borrowing (internal and external) and recommend a borrowing strategy for 2020-21;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision;

(iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account;

(v) recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2020-21 in line with MHCLG (2017) guidance.

2 Information required to take a decision

The following paragraphs 2.1 to 2.4 have been provided by our Treasury Management external advisors, Arlingclose:

Economic Background

2.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. UK Consumer Price

Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

2.2 The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal

2.3 GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth while production was flat and agriculture recorded a fall. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment.

Interest Rate Forecast

2.4 The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Borrowing and Investment – General Strategy for 2020-21

2.5 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. An authority can choose to borrow externally to fund its CFR. If it does this, it is likely that it would be investing externally an amount equivalent to its total reserves, balances and net creditors. Alternatively, an authority can choose not to invest externally but instead use these balances to effectively "borrow internally" and minimise external borrowing. In between these two extremes, an authority may have a mixture of external and internal investments / external and internal borrowing.

Table 1 below sets out the forecast CFR position for the Council as at March 2020 and forecast CFR and borrowing requirements over the following 3 years:

Table 1: Balance Sheet Forecast

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
General Fund CFR - Non PFI	480.2	540.7	594.6	638.4
PFI	45.8	42.5	39.4	35.5
HRA CFR - Non PFI	172.7	167.7	164.8	164.8
PFI	50.5	48.1	45.2	42.7
Total CFR	749.2	799.0	844.0	881.4
Less: PFI debt liabilities*	96.3	90.6	84.6	78.2
Borrowing CFR	652.9	708.4	759.4	803.2
Finance via;				
Deferred Liabilities	3.8	3.7	3.7	3.6
Internal Borrowing	219.0	222.5	223.7	224.1
External Borrowing	430.1	482.2	532.0	575.5
Total	652.9	708.4	759.4	803.2
Investments	30.0	30.0	30.0	30.0

**£96.3m PFI Liabilities (£5.7m falling due in 2020-21)*

2.6 Prior to 2009-10 the Council's policy had been to borrow up to its CFR, investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Council's balances. This coincided with significant falls in investment returns, making the budgetary benefit of maximising external borrowing more marginal. Thus, the Council has chosen to steadily reduce monies invested externally and instead has used internal balances to offset new borrowing requirements.

2.7 The external borrowing necessary to fund the projected rise in CFR highlighted in Table 1 (above) will be a mixture of long and short-term borrowing. The cost of borrowing has been historically low over the past decade. Short term borrowing rates remain relatively low, however, longer term rates have recently increased quite significantly. There was a 1% increase in PWLB rates overnight on the 9th October 2019. This is likely a result of exceptionally high levels of long term borrowing sector wide over recent months, which was getting close to the statutory PWLB limit of £95bn. As HM Treasury had no appetite to extend the limit, they chose to control demand by increasing rates, thereby preserving the facility. As a result, by way of an example, a 30 year maturity loan on 8th October was 1.96% which increased to 2.97% the following day. PWLB borrowing does however remain available, with most rates at or below 3%, which isn't particularly expensive in historical terms.

2.8 Table 1 above also reflects a fairly consistent level of internal borrowing forecast over the next 3 years. This largely reflects the view that forecast reserves, balances and net creditors are projected to remain reasonably consistent over the medium term.

2.9 This in part depends on the extent to which short term borrowing rates may increase from current. The relative mix of future internal and external borrowing will be considered in conjunction with advice from the Council's external treasury management advisor, noting that provision has been made in updated Council budget plan revenue resource assumptions to accommodate a continued future mix of internal and external borrowing.

2.10 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2020-21 continues to place emphasis on the security of the Council's balances. Although credit conditions have been steadily improving, the global recovery is still fragile and regulation changes have increased local authority exposure in the event of a possible default of any financial institutions

2.11 It is recommended that balances should continue to be invested to a level which is perceived to be reasonably secure and which is needed to meet the day-to-day cash flow requirements of the Council (around £30 million). The remainder of the balances will be effectively invested internally, that is used to offset borrowing requirements.

2.12 In order to increase investment returns, members approved a potential investment of up to £10m in the Local Authorities Pooled Investment Fund (LAPF) as an approved Council Investment in the 2019/20 Treasury Management Strategy. The Council made an initial investment in the LAPF of £5m in May 2019.

2.13 Given the nature of the underlying investment (UK based diversified property portfolio) and the potential for domestic economic volatility in the run up to UK's expected withdrawal from the EU on 31 January 2020, advice will be sought from the Council's external treasury advisors, as well as more detailed discussions with the LAPF's Fund Manager, CCLA. Updated Council budget plans have factored in a potential further investment of £5m by the end of March 2020.

2.14 Average current Council cashflow balances remain consistent at about £32m (including the LAPF), and officers consider that an investment of a further £5m will still leave about £22m day-to-day cashflow requirement as noted above.

Borrowing Strategy

2.15 The Council is forecast to hold around £536.4m of external borrowing and other long-term liabilities as at 31 March 2020. This is analysed at Table 2 below:

Table 2 – year end estimate – 31 March 2020

	£m	**%**
PWLB loans (fixed rate)	274.4	51
LOBOs	60.0	11
Loan stock (fixed rate)	7.0	1
Other long term loans (fixed rate)	43.4	8
Temporary borrowing	45.3	10
Total external borrowing	**430.1**	
Other Long Term Liabilities (mainly PFI)	96.3	18
Total external debt liabilities	**526.4**	

2.16 The approved sources of borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any bank or building society authorised to operate in the UK
- Other local authorities
- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds
- Salix Finance Limited

2.17 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and also flexibilities to restructure and make possible savings. The Council also has LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay at no cost, if it has the opportunity to do so. The Council's current limit on LOBO borrowing is set at 11% of long-term debt.

Following the 1% increase in PWLB borrowing rates (as noted above in paragraph 2.7), Arlingclose suggest that PWLB rates are now relatively expensive (albeit reset to the rates they were 12 months previous) compared to alternative longer term funding sources, where Councils are considering longer term borrowing. The Council's current approach is to continue to borrow short term, but this will be subject to ongoing review in consultation with Arlingclose, as to when it may be more appropriate to borrow longer term. Alongside this, will be consideration of potential other funding sources that may be more advantageous than prevailing PWLB rates.

2.18 One such example is the Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative source of local authority finance. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

2.19 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. At the present time, the Council is not in a position to undertake early repayments due to the current prohibitive early repayment rates.

2.20 Salix Finance Limited provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £5.9m interest free loan to part fund the £11m approved street lighting replacement scheme in the Council's approved capital plan.

2.21 Borrowing policy and performance are monitored throughout the year and are reported to Members via a Half Yearly Report and also an Outturn Report in line with approved guidance.

Investment Strategy

2.22 Investment guidance issued by MHCLG requires that an investment strategy, outlining the authority's policies for managing investments in terms of risk, liquidity and yield, should be approved by full Council or equivalent level, before the start of the financial year. This strategy can then only be varied during the year by the same executive body.

2.23 The Council will not place direct investments in companies as defined by the Carbon Underground 200 on 1 February each year.

2.24 A new regulatory update came into force from 3rd January 2018; the second Markets in Financial Instruments Directive (MiFID II), which meant that the Council had to formally apply to renew its status as a 'professional client' (also referred to as the 'opt up' option), but subject to certain criteria being met.

2.25 Following full Council approval on 13th December 2017, officers have now successfully 'opted up' the Council to professional client status, effective from 3rd January 2018. Given the size and range of the Council's treasury management activities, the Service Director Finance believes this to continue to be the most appropriate status.

2.26 The Council will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £20 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the local authority property fund, will be used internally, offsetting borrowing requirements.

2.27 The Council uses credit ratings from the three main rating agencies - Fitch, Moody's and Standard & Poor's to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to help determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.28 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria:

- No new investments will be made;
- Any existing investments that can be recalled at no cost will be recalled;
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required criteria, then no further investments will be made in that organisation until the outcome is announced. This policy will not apply to negative outlooks.

2.29 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.30 If the UK enters into a recession in 2020-21, there is a small chance that the Bank of England could set its Base Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short term investment options. This situation already exists in many other countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

2.31 Annual cash flow forecasts are prepared which are continuously updated. Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

Statement of Policy on the Minimum Revenue Provision (MRP)

2.32 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement – CFR), ie the borrowing taken out in order to finance capital expenditure.

2.33 Prior to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into force on 31 March 2008, the set aside was specified as a percentage of a council's CFR (2% for HRA debt, 4% for General Fund). The current Regulations are less prescriptive with a requirement to ensure the amount set aside is deemed to be **prudent**, although there is accompanying current MHCLG guidance which sets out possible methods a council might wish to follow.

2.34 Current MHCLG guidance recommends that authorities prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full council. Appendix C details the Council's policy for the provision of MRP. Within the revised MRP policy approved by Council last year, the unwinding of the previous over-provision was profiled equally over 10 years.

2.35 The maximum amount of un-wind in any one year cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The current unwinding of the previous under-provision has been factored into the Council's CFR calculations set out earlier at Table 1

2.36 Officer recommendation is that the impact of the additional unwind, will be transferred to Council financial resilience reserves as part of the Council's broader risk strategy set out in the overall annual budget report to Cabinet on 28 January and Budget Council on 12 February 2020.

Policy on the Use of Financial Derivatives

2.37 Local authorities (including this Council) have in the past made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans). The Localism Act 2011 includes a general power of competence that appears to remove the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

2.38 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where it is confident it has the powers to enter into such transactions. They will only be used for the prudent management of its financial affairs and never for speculative purposes and where it can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

2.39 Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Non-Treasury Investments

2.40 The Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. They are however covered by the Authority's Investment Strategy (see Appendix E).

Treasury Management Indicators

2.41 The Council is asked to approve certain treasury management indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive they will impair the opportunities to reduce costs. The proposed indicators are set out in Appendix D.

Other Matters

2.42 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management strategy:

(i) *Investment Consultants*

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment and debt management;
- Notification of credit ratings and other information on credit quality;
- Reports on treasury performance;
- Forecasts of interest rates and economic activity; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) *Investment Training*

As part of the MiFID II requirements, the needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, and formally on a 6-monthly basis as part of the staff appraisal process. Additionally training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses and seminars as appropriate.

(iii) *Investment of money borrowed in advance of need*

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.

(iv) Policy on charging interest to the Housing Revenue Account (HRA)

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between General Fund and the HRA. The CIPFA code recommends that authorities state their policy each year in the strategy report.

On 1 April 2012, the Council notionally split each of its existing long term loans into General Fund and HRA pools. New long term loans borrowed will be assigned in their entirety to one pool or the other. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Interest will be applied to this balance using the authority's average investment rate.

3 Implications for the Council

3.1 Working with People
N/A

3.2 Working with Partners
N/A

3.3 Placed based working
N/A

3.4 Climate Change and Air Quality
N/A

3.5 Improving Outcomes for Children
N/A

3.6 Other (e.g. Legal/Financial or Human Resources)

The revenue implications of the strategies outlined have been reflected in the Council's annual budget report 2020-23.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Treasury management performance will be monitored and reported to members during the year.
Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 28 January 2020 and then full Council on 12 February 2020.

6 Officer recommendations and reasons

That Corporate Governance & Audit Committee recommend the following for approval by Cabinet and then Council:

(i) the borrowing strategy outlined in paragraphs 2.15 to 2.21;
(ii) the investment strategy (treasury management investments) outlined in paragraphs 2.22 to 2.31 and Appendices A and B;
(iii) the policy for provision of repayment of debt (MRP) outlined in paragraphs 2.32 to 2.36 and at Appendix C;
(iv) the treasury management indicators in Appendix D;
(v) the Investment Strategy (Non-Treasury Investments) at Appendix E.

7 Cabinet Portfolio Holder recommendation

The report and recommendations be submitted to Cabinet on 28 January 2020 and Council on 12 February 2020.

8 Contact officer

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

9 Background Papers and History of Decisions

CIPFA's Code of Practice on Treasury Management in the Public Services; CIPFA's Prudential Code for Capital Finance in Local Authorities; Guidance on Local Government Investments (MHCLG 2018); The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; Localism Act 2011.
CIPFA Treasury Management Code and Prudential Code 2017

10 Service Director responsible

Eamonn Croston 01484 221000

APPENDIX A

Investment Policy for 2020-21

Investment Limits:

- The Council is able to invest an unlimited amount with the UK Government for up to 6 months.
- The Council is able to invest up to £10 million and up to three months with UK banks and building societies with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10 million and up to two months with foreign banks with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10 million and up to two months with individual local authorities.
- The Council is able to invest up to £10 million in individual MMFs (instant access or up to 2 day notice). There will be an overall limit of £40 million for MMFs (non-government funds), plus up to £10 million invested in a fund backed by government securities.
- The Council is able to invest up to £10million in Local Authority Pooled Investment Funds.

The maximum limits apply to any one counter-party and to a banking group rather than each individual bank within a group.

Note:

The limits set out above exclude any amounts held on the Council’s behalf by the Yorkshire Purchasing Organisation (YPO). The YPO (a consortium in which the Council has an interest) invest funds as part of their treasury management processes. For the avoidance of doubt, this element does not form part of the limits set above. For context, the Council’s proportion of YPO’s maximum investment with any given counterparty is approximately £155k.

The Council will not place direct investments in companies as defined by the Carbon Underground 200 on 1 February each year.

Liquidity management:

The Authority uses purpose-built cash flow forecasting models to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

	Short-term Credit Ratings / Long-term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Dec 2019
	Fitch	**Moody's**	**S & P**	**£m**	**Period (2)**	
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<3mth	HSBC, Bank of Scotland, Lloyds Group, Handelsbanken, Santander UK, Leeds BS, Nationwide BS, Barclays, Coventry BS, Close Bros
	AAA,AA+,AA, AA-,A+,A, A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<2mth	Various
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
MMF (1)	-	-	-	10	Instant access/ up to 2 day notice	Aviva, Goldman Sachs, Deutsche Bank, Aberdeen Standard
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	10	<2mth	
Local Authority Pooled Investment Funds	-	-	-	10	>6mth	

(1) Overall limit for investments in MMFs of £50 million – the assets the funds invest in are securities and structures secured on government securities
(2) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th></th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th></th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>Prime</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A-</td><td rowspan="2">A-2</td><td>A-</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td rowspan="14">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">Non-investment grade speculative</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC-</td><td rowspan="3">In default with little prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td rowspan="3">D</td><td rowspan="3">/</td><td>DDD</td><td rowspan="3">/</td><td rowspan="3">In default</td></tr>
<tr><td>/</td><td>DD</td></tr>
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APPENDIX C

CURRENT MINIMUM REVENUE PROVISION POLICY

1. Background

1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 requires authorities to make an amount of MRP which the authority considers "prudent".

1.1 The regulation does not itself define "prudent provision". However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

2 Policy for 2018-19 onwards

2.1 The Service Director Finance recommends the following policy for making prudent provision for MRP:

(i) General Fund Borrowing (pre 1st April 2008) - Provision to be made over the estimated average life of the asset (as at 1 April 2008) for which borrowing was taken - deemed to be 50 years (annuity calculation).

(ii) Calculations to compare this to the previous MRP charge indicated that between 2007-08 and 2015-16 the Council provided an additional £91.2m with which it will "un-wind" over 9 years from 2017-18.

(iii) General Fund Prudential Borrowing – Provision to be made over the estimated life of the asset for which borrowing is undertaken. Provision to commence in the year following purchase (annuity calculation). Where large loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

(iv) HRA Borrowing - Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.

(v) PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.

APPENDIX D

TREASURY MANAGEMENT INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)
The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Council as its gross debt will not exceed the CFR over the forecast period (see the 'Gross Debt and the Capital Financing Requirement table within the Capital Strategy).

Interest Rate Exposures
While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2020-21, 2021-22 and 2022-23 of £708m, £759m, £803m of its net principal. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2020-21, 2021-22 and 2022-23 of £100m of its net principal.

Maturity Structure of Borrowing
This indicator is designed to prevent the Council having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	20	0
Between 1 and 2 years	20	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

*LOBOs are classed as fixed rate debt unless it is considered probable that the loan option will be exercised.

Total principal sums invested for periods longer than 364 days
The Council is not intending to invest sums for periods longer than 364 days.

Appendix E